AGREEMENT CONSUMMATION IN INTERNATIONAL TECHNOLOGY TRANSFERS

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SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE COMPLETION OF A MASTER IN INTELLECTUAL PROPERTY AT FRANKLIN PIERCE LAW CENTER, SPRING 1993

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JUL 25 1997

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"Deerslayer knew that his adversary must be employed in reloading, unless he had fled. The former proved to be the case...All this time the Indian had been so intent on his own movements, that he was even ignorant that his enemy was in the woods...Then Deerslayer stepped from behind his cover, and hailed him...'I'm young in war, but not so young as to stand on an open beach to be shot down like an owl...it rests on yourself whether it's peace or war atween us...' Deerslayer then met his offered friendship in a proper spirit, and they shook hands cordially, each endeavoring to assure the other of his sincerity...There was no apparent distrust in manner of either...'Young head, old mind. Know how to settle quarrel. Farewell, brother'...The parting words were friendly...the white man moved towards the remaining canoe, carrying his piece in a pacific manner but keeping his eye fastened on the movements of the other...The black, ferocious eyes of the Iroquois were glancing on him...and the muzzle of his rifle seemed already to be opening in a line with his own body. Then, the long practice of Deerslayer, as a hunter, did him good service...he fired into the bushes where he knew a body ought to be...the Iroquois gave the yell that has become historical for its appalling influence, leaped through the bushes, and came bounding across the open ground flourishing a tomahawk...At that instant the Indian staggered and fell his whole length to the ground...'I know'd it-I know'd it...yes, I know'd it would come to this..." James Fenimore Cooper, The Deerslayer, 94-99 (Bantam Books 1990).

I INTRODUCTION

It is not always easy to determine why international agreements fail to form properly. Parties from different nations and different cultures that seek to conduct business together face endless opportunities for misunderstanding. Confusion may stem from differing cultural and ethnic backgrounds, business practices and customs, and legal traditions. In extreme cases, one party may sense that it was legally bound to a contract that the other party viewed as nonobligatory and litigation ensues.[3] More commonly, however, the party that thought they had an agreement merely missed an opportunity, spent money preparing for a venture that never materialized, or is simply disappointed. Perceptions of what a contract is, what it means to be contractually bound, and what it takes to form a contract are at the heart of these types of problems.

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3 This is a vexing problem even when parties operate under the same legal system and have teams of lawyers to help them determine whether an "agreement" has legal effect. *See eg,, Texaco v. Pennzoil*, 729 S.W. 2d 768 (Tex. App.-Houston [1st Dist] 1987)(Failure to properly construe a four page "agreement in principle," among other things, led to a $8.53 billion judgment against the defendant).

When the subject of the hoped-for agreement is the exchange of patent and know-how rights, the issue is particularly acute.

A. The Problem.

Despite the importance that governments attach to technology transfers and the array of laws and regulations crafted to protect proprietors, licensees, and the public at large, it remains difficult to know when such an agreement is actually effected. This study is concerned with the *legal* view of contract formation *only* to the extent that it affects the perceptions of the parties as to when they should perform according to some agreement. It is unlikely that most business practitioners negotiate an agreement with the intention of suing the other side. Business people wish to know when they *should perform*, not when they are *able to sue* (at least at the outset). As a practical matter, few businesses begin performing under an agreement before they perceive it to be complete.[4]

Suppose, for example, that a licensor is to receive a royalty based on the net sales of a product that a foreign licensee is to make and sell in a foreign country. The licensor is not merely concerned with whether or not he has legal recourse against the licensee if the licensee fails to use his best efforts to produce some minimum quantity of goods. Rather, the licensor must also be concerned with whether or not the prospective licensee will prepare to operate immediately, at some time in the future, or at all. Deciding whether to negotiate nonexclusive licenses in the same territory, for example, requires a knowledge of whether an agreement has already been completed with an exclusive licensee.

Marketing personnel might ponder whether a prospective licensee has an appropriately aggressive sales force to generate the sales and

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4 This is a separate issue from whether the parties are legally bound. The use of the term "agreement" is multifaceted in this paper. The term "contract" will be used to denote an agreement that is legally binding; that is, failure to perform may result in liability. The more generic term "agreement" will be used to denote the point at which two parties believe themselves to be obligated to perform a particular course of conduct irrespective of whether there is legal liability.

Indeed, such distinctions are among the most difficult judgments made by lawyers and business practitioners alike. Often parties perceive themselves free of legal obligation when, in fact, they are contractually bound under the law. The numerous cases addressing whether or not a "Letter of Intent" is enough to bind a party to its terms are testimony to this truth. Many lawyers have become astute to these differences between liability and perception and have incorporated terms such as "this agreement shall in no way be read to imply any legal obligation, contract, or promise... " in the text of such documents. *See eg, Chromalloy v. Universal Housing*, 495 F.Supp. 544 (S.D.N.Y. 1980) *aff'd*, 697 F.2d 289 (2d Cir. 1982)(Express term identifying an intention not to be bound denies a letter of intent enforceability as a contract).

production of the products in question at precisely the right time. They must know when an agreement is complete so they can plan the appropriate support for the project. Research and Development managers might be concerned over whether valuable personnel will be diverted away from some domestic projects to assist in solving technical problems with license implementation. Thus, determining when a technology transfer agreement is complete and what it means to be complete play an important role in business strategy apart from determining whether one party is legally liable to the other. However, as will be shown below, the differing views of lawyers and business practitioners are not completely divorced from each other either.

This paper explores the relationship among various legal, cultural, historical, and commercial characteristics that define the nature of agreement in international technology transfer agreements. While it is impossible to broach this topic with an in-depth analysis of each such factor in every nation and region in the world, it is possible to use some representative cases. The nations chosen for this study include Germany and France, to illustrate how such factors interrelate in a non Anglo-American legal system. The amalgam of these classic civil law systems operating within a new regional legal system (the EEC) produces interesting and important observations. Japan will also be studied because its importance in the world economy is too plain to be disputed and, just as importantly, it provides an example of an ethnic culture extraordinarily different from the western world.

Part II of this study will examine the societal underpinnings for the law of contracts. Of utmost concern is what it means to be contractually bound in the studied cultures. A brief overview of the substantive rules of contracts must be addressed in each case but so must the legal systems under which they operate. In Part III, substantive intellectual property and licensing law will be compared but only from the perspective of the impact that such laws have on agreements to transfer such rights. That is, intellectual property law will be viewed with respect to how it facilitates or impedes the exchange of technology. Throughout this work, business custom and practice will be referenced as will the role of historical and social developments. While the nations specifically mentioned above will provide the primary focus of this work, examples and illustrations from other nations will be used to provide further comparison on a given point or issue[5].

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[5] In addition to ordinary legal and business literature research, the data that supports this work was derived from numerous interviews and surveys with lawyers from around the world with experience in international technology transfer agreements and American business practitioners who have recently concluded such agreements with foreign business interests. Further, numerous role playing

Comparisons will be made between the perspective of an American business practitioner or lawyer[6] and the perspectives that their foreign counterparts are likely to have. These comparisons will reveal that the increasing globalization of business is causing some contracting practices to more closely resemble American style contracting practices. However, much of the process of reaching agreement still remains wedded to the unique cultural factors imbued in the participants. Merely presenting lists of similarities, differences, and developing trends in contracting practices is not enough to outline the parameters that define agreement consummation. Rather, what is needed is a device to explore the contracting process.

Thus, hypotheticals will be employed throughout to demonstrate the likely way in which these perspectives would be manifested in the course of negotiation and agreement completion. This will avoid merely proffering vague or abstract generalizations. In Part IV, two typical licensing scenarios will be presented. One scenario will involve a straightforward grant of patent license in exchange for royalty income. A second will involve a license of patented technology that requires the licensor concomitantly to dispatch technical personnel as part of a license of know-how needed to practice the technology. These hypotheticals will present a model for mapping the perceptions that one's negotiating counterpart is likely to maintain regarding the stage of the relationship between them and the consequences that attach to making such a determination.

B. Why Technology Transfer?

One might wonder why technology transfer agreements should be singled out among the numerous possible types of international commercial arrangements. Even a cursory review of the business literature reveals that the role and economic significance of these types of agreements has become central to international markets, economic growth, and quality of life.[7] Despite the importance of these agreements

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exercises concerning intellectual property licensing and contract formation were conducted with lawyers and governmental officials from many different nations. Data derived from these exercises are also incorporated into this study.

6 The involvement of business practitioners and lawyers in these types of agreements makes it difficult to identify a general baseline from which a model can be hypothesized. That is, does one chose to study a lawyer's perspective or that of the business practitioner? Since both contribute to the perception of when agreements are complete, the more fruitful approach is to consider them as an entity. That is, the model proposed here contemplates a perspective arrived at by a team comprising lawyers and business practitioners.

7 Clive Cookson, *Technology Transfer: Spreading the Word*, Financial Times, Oct 10, 1989 (The increasing importance of technology transfer to government and industry

much of the work done in this field remains esoteric and anecdotal. Most of the works assume that the parties bring to the discussion a common understanding of what a contract is and what constitutes formation. They then focus on either the intellectual property aspects of the agreement or the dynamics of negotiation.[8]

Governments and intellectual property proprietors find special value in ideas and the embodiments of those ideas that are germinated in their own back yards and treat them specially. Perhaps it is the nature of the property itself that causes this response. For example, if someone has an item of tangible property, like a car, and someone else steals it, the rightful owner is divested of its possession and usually knows fairly quickly that it is gone. This is even true with most intangible property such as stocks since ownership is evidenced by some token such as a share certificate. However, if one has patent or trade secret rights to a novel process and someone else misappropriates this property the situation is quite different. The original owner still has possession of the property but so does the party that misappropriated it. The ethereal nature of the property thus sometimes makes proprietors insecure and tenuous.

Furthermore, losses of intellectual property are particularly destructive because value is based largely on the novelty of the property. It may be the culmination of a creative venture borne of careful research, flash of genius, or incremental improvement. Whatever the case may be, it involves an investment in creativity solely potential until practiced. Losses can represent tremendous wastes of opportunity. Additionally, because intellectual property rights are generally rights to exclude others, officials are often quick to suspect that anticompetitive behavior or abuse may be associated with them. Moreover, potential intellectual property licensees and the governments under which they reside often maintain an apprehensive image of the foreign licensor as something of a

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is stimulating the growth of independent technology brokers...National Research and Development Corporation [which claims to be] the largest organisation [in the world] has more than 2,700 agreements to its credit); Michael Jeffries, *Technology Transfer: Numerous Groups Seek Big Profits*, Financial Times, Nov. 10, 1987 (Barclays has designated 85 of its banks up and down the country [UK] as special 'hi-tech' branches); Weston Anson, *Establishing an International Licensing Strategy*, Les Nouvelles, Mar. 92, 34 (The European Economic Community represents more than 300 million people. With Eastern Europe eventually figured in, the number is closer to 700 million. This comprises 40% of the world GNP, yet today licensing revenue in Western Europe is only factored as10-15% of that of the US. This identifies the EEC as a rich target for future licensing ventures.)

[8] *See eg*, Philip Sperber, *Overcoming Negotiation Barriers in Technology Transfers*, 24 Idea 15 (1983); Elliott Hahn, *Negotiating Contracts with the Japanese*, 14 Case Western Reserve Journal of International Law 377, (Spring 1982).

carpetbagger.[9] Care must be taken, such governments maintain, so that the foreign entrepreneur is not allowed to exploit the nubile market without leaving behind a reasonable benefit on the licensee or its government.

In light of the special treatment they receive, the unique nature of the property interests involved, and the immense economic potential they represent, technology transfer agreements warrant special study.

II CONTRACTS AND CULTURE

A. Anglo-American Contract Law, Legal Culture, and Business Practice.

Scholars of Anglo-American contract law cannot seem to agree on a common definition of a contract. The field is filled with different perspectives.[10] One of the more trenchant attempts to survey the full range of these perspectives was presented in 1933 by Morris R. Cohen.[11] Cohen maintained that there are seven different, somewhat overlapping, theories that are used to justify contract law. Of course, justifying contract law is not the same thing as describing the dynamics of the process but it is related. One seeking to justify an "aspect" of legal doctrine is more engaged in rationalizing the multifarious aspects of its substantive content. At any rate, each of these justifications has import in accounting for the prevalent perception of contracting as an activity.[12]

Cohen categorized one justification for contract law as the *Sanctity of Promises* theory. One of the functions of the law of contracts under this theory is to keep human activity on a high moral plain: contracts ought to be enforced because a promise has sanctity per se. This, he maintained, is a view shared by many laymen but it cannot be a complete

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9 Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 Iowa L. Rev. 273, 281 (1991).

10 *See, eg.*, 1 Williston, Contracts §1(3ed. 1957)(A contract is a promise...for the breach of which the law gives a remedy); John Calamari and Joseph Perillo, Contracts §1-1 (West 3ed. 1987) (A contract is a legally enforceable agreement); Macneil, The New Social Contract 4 (1980) (The relations among parties to the process of projecting in the future defines a contract).

11 Morris R. Cohen, *The Basis of Contract,* 46 Harv. L. Rev. 553 (1933). Cohen addressed the topic more broadly than is identified here. However, much of what he discussed comes directly from Anglo-American jurisprudence and so is attributed to Anglo-American perceptions and culture.

12 That is, the justifications can only receive wide acceptance over a long period of time if they are consistent with American social culture. Otherwise, cases would swing back and forth on each issue until a majority opinion is adopted. Thus, the justifications which become legitimated serve something of a normative function when one begins the process of contracting or negotiating.

explanation because the law and practical human experience recognize that not all promises ought to be enforced.[13]

Secondly, Cohen recapitulated the long held notion that contract law actuates the principle that individual will is worthy of respect.[14] This view has appeal for the more libertarian mindset and may be expressed in the Anglo-American fiction of contract formation based upon a "meeting of the minds." Under this view, contracting gives expression to one's individual liberty to choose their own affairs. One shortfall of this theory lies in the recognition that much of contract law deals with events that the "minds" never actually anticipated. Rather, the law assigns rights and duties as though they had done so.

The third theory explained by Cohen is the *Injurious Reliance* theory as exemplified in the doctrine of Promissory Estoppel. This has great social and moral appeal since there is something inherently just about forcing someone who has caused another to alter his behavior to take responsibility for it when such reliance works a wrong. Obviously, this too cannot serve as a complete explanation or the law would have to abandon such doctrines as excuse for impracticability.

The *Equivalent* theory, that where one gives something to another they ought to receive a quid pro quo, is another theory noted by Cohen as possessed of popular appeal. This notion has its shortcomings too. For example, the law would be compelled to inquire into the adequacy of consideration in every contract if this were the case. This is not only at odds with the law but with business practice as well. Many business practitioners would not enter a contract unless they thought the other side did not get adequate consideration compared to what they, themselves received. Many people would like to believe they got more out of a deal than did the other side. The greater the difference, the better.[15]

Formalism was another aspect of contract law addressed by Cohen. The normative function of recognizing when one is bound can be facilitated by habits, customs, and acts that are given legal significance. There is no doubt that this serves an important business function since certainty may be gained through it. Another justification for contract law is that it allows parties to an agreement to distribute risks. This too serves an important business function. Under this view, it is as though

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13 Promises made pursuant to a mutual mistake, for example, are not enforced.

14 *Cf.*, Imanuel Kant, *The Philosophy of Law*, 174 (Robert C. Solomon and Mark C. Murphy, eds., What is Justice, 1990).

15 This notion is contrary to the modern notion of "win-win" negotiations but is still believed to be the view held by many in business. While "win-win" may be an admirable goal, there is nothing in American law that requires such an attitude to be adopted by contracting parties, nor is there any legal doctrine that rewards them for such behavior or punishes its absence.

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one party says to the other "I assure you that a certain event will occur and I will pay you if it does not."[16] While the parties to an agreement certainly do this, this is not all that is done. Otherwise, there would seldom be cause for specific performance, for example. Lastly, Cohen considered the contract as an instrument for putting the power of the state behind one party having superior rights over another party. Certainly this too occurs; but asserting that all of contract law can be justified on this basis is a bit much. How, for example, could one justify enforcing a contract against a party that entered into a "bad" deal for failure to exercise a duty to read? Wouldn't a sovereign have as much concern for the ignorant as for the astute?

Two additional notions that are worth mentioning here are the legal realist movement, as exemplified in the works of Karl Llewellyn, and the Law and Economics movement whose principal proponent today is Judge Richard Posner.[17] Llewellyn's position was that contract law ought not be construed like Euclidean geometry in which one reaches a hypothesis from universally accepted axioms. Principles of contract law, he would maintain, should be derived from an understanding of the level at which the parties operate (eg, merchants or consumers) and the expectations of how one operating at that level ordinarily conducts oneself. Much of this thinking ended up in the Uniform Commercial Code though not nearly as much as Llewellyn would have liked.[18] For example, under the Uniform Commercial Code, a merchant's firm offer is binding because merchants actually act as though they are bound by an offer they agree to leave open even in the absence of consideration.[19] The law, in this case, holds merchants to a standard of behavior that comports with observed custom and usage of trade.[20]

The Law and Economics movement suggests that contract law can best be justified when it is used to facilitate the efficient operation of markets. That is, rules of law are to be understood and applied so that goods and services are allocated in a mutually advantageous manner but also so that overall societal wealth is maximized. So for example, Judge Posner would likely maintain that gratuitous promises which add value to the wealth of society ought to be enforced even where consideration may

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16 Oliver Wendell Holmes, The Common Law, 235-237 (Mark DeWolfe House ed., 1963)(1881).

17 Because of his position on the bench, his numerous controversial judicial opinions, and scholarly works, Judge Posner must be considered the leading proponent of this school of thought. *See eg.*, Anthony T. Kronman and Richard Posner, The Economics of Contract Law, (Little, Brown, & Co. 1979).

18 Grant Gilmore, Ages of American Law, 86 (Yale University Press 1977).

19 Uniform Commercial Code §2-205 (1976). The offer must be in writing.

20 Comment 1, *Id.*

be lacking.[21] Judge Posner would also argue that his theory is normative as well as descriptive. It should be used to fashion rules of law not just to understand them.[22]

The Common Law tradition of American law adds a dimension to understanding these perceptions in a unique way. *Stare decisis* allows contract doctrine and the justifications and cultural values that it serves to be traced back, piece by piece, through an analysis of jurisprudence. Judges are compelled to explain the principles used to resolve disputes in cases that come before them. They cannot wait for legislators to recognize a conflict of principle or policy. They also cannot rely solely or principally on theoretical works of commentators. Rather, they must take stock of legal principles and the cultural values expressed in cases that preceded them. Thus, when they make law they are shaping future cultural norms by reflecting on cultural values. When a wrong decision is made, the judicial principle is called into question in subsequent disputes and eventually cultural values are given more accurate expression. Studying jurisprudence can reveal the relationship between cultural factors and behavior in a way that is not possible in other systems.

The works of Cohen, Llewellyn, Posner and their manifestations in American jurisprudence certainly provide a range of justifications whose utility cannot be denied in specific instances. That is, making sense of particular rules of law and applying them to novel issues is greatly eased by adopting aspects of each of the theories.[23] In part, these notions have utility and are implicit because of the common cultural background shared by Americans. Generally speaking, Americans are socialized into accepting all of these models as normative functions of contract enforcement.[24] However, these models do not completely explain the way in which the participants perceive the *process* of contracting.

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21 The Economics of Contract Law, *Supra note 17* at 46-58.

22 In some respects, this movement can be considered an offshoot of legal realism. It proposes to make the law reflect (and in some cases shape) free and efficient market places. Thus, how business practitioner's view the role of contract enforcement and performance can be used to account for rule making and adjudication. This can get well into such topics as the theory of the efficient breach of contract and is well beyond the scope of this paper. Suffice it to say, the law and economics movement has an effect on the way contract law is viewed and forces jurists to consider the realities of market economics.

23 For example, the *Sanctity of Promise* theory is readily found in *Ogden v. Saunders*, 25 U.S. (12 Wheaton) 213; the *Injurious Reliance* theory may be found in *Schmitt v. McKay*, 555 F.2d 30 (2d Cir. 1977).

24 An example may be useful here. Consider an instance in which two young American brothers are trading baseball cards. The older one says to the younger, "I'll give you a Jose Canseco and a Nolan Ryan card for a Reggie Jackson rookie card." The Reggie Jackson card is tendered and the Jose Canseco card is given in return. The Nolan Ryan card however, is said to be forthcoming in a day or two. It never

On a grander scale, contracting can be viewed as inviting the government to be a party to a private matter. Under this view, the process necessitates providing for the eventuality of failure. One might argue that this is precisely the perspective adopted by the majority of American lawyers.[25] The lawsuit, after all, while statistically rare[26] is the very starting point of the American lawyer's introduction to the study of contract law.[27] Lawyers learn the rules of contract law by studying what happens when contracts fail. To be sure this cynical view is not the sole view that lawyers adopt since they realize they are bound to assist in the accomplishment of the client's lawful objectives. If nothing else, ethics rules compel it.[28] It must also be remembered that the Anglo-American legal model of contract formation is a conceptually instantaneous and event-driven occurrence. That is, once certain events (offer, acceptance,

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arrives. The aggrieved party complains to no avail and ultimately seeks adjudication to the boys' mother. The mother finds that there was a binding contract, that the original holder of the Jose Canseco card is in breach and that he must tender one or more cards of equal value to that of the Nolan Ryan card. The breaching boy also receives a tongue lashing for failing to live up to his promises.

The mother exposes the boy to the full panoply of contract law justifications. "A promise is a promise...no one made you enter into this deal...your brother was counting on you, he cancelled a deal he had with another boy because of your promise...he gave you a valuable card and you only gave him half of what it was worth...you have got to learn that when you say you have a deal, you have one...you knew the risk you were taking by agreeing to the deal even though you didn't have a Nolan Ryan card...its a good thing he came to me because who knows how many times you would have pulled this kind of stunt on him." Morris Cohen would be proud. But so would Llewellyn and Posner when the boy's mother finishes with "You are not going to be allowed to get away with cheating your little brother...you know that this is not the way all the other card collectors act, and besides, if your brother has to constantly look over his shoulder to make sure he isn't being cheated after every deal he wont have enough time or cards to trade with his friends."

What a contract is and what it means to be bound by contract are commonly understood aspects of American life even if the technical aspects of the law of contracts are not. Of course, they are not hard to find either. A binding contract was formed at the instant in which the older brother's definite offer was accepted by the younger brother. Consideration was adequate on both sides and the only possible defense may have been based upon capacity (for which poetic license is taken here). There was no need to employ any special device or governmental act to form the contract.

25 Ages of American Law, *supra note 18* at 47.

26 Given the enormous numbers of contracts formed every day, the number that end up in litigation is small indeed. Whether this is too many or whether this is the way things ought to be will not be resolved here. From the perspective of the ordinary business practitioner, the probability of ending up in the court room over any given contract is small.

27 Ages of American Law, *supra note 18* at 46-47.

28 *See, eg.*, ABA Model Rule of Professional Responsibility 1.2.

and consideration) are brought together, a contract is instantaneously formed with the concomitant arising of legal rights and duties. A single point thus exists in this process; on one side is negotiation and on the other is contract. Once that point is passed, business dealings revolve around performance and enforcement.

American business practitioners often have altogether different attitudes about what is being done during negotiation or contracting. To such a person, contracting may mean anything from formalizing the terms of a deal (transaction) to morally obligating oneself to a good faith business relationship. This view, while different in perception, is not really at odds with the more cynical view outlined above. The fixture of the lawyer as one who must warn the business person of all that could go wrong is often maligned in jokes and aphorisms. Indeed, it is not uncommon to hear business people refer to lawyers as deal killers. Still, business puts up with this lawyerly naysaying because its practitioners have learned the hard way time and again that the exuberance of the newfound business relationship can easily turn to instantaneous pain.

An everyday American business transaction can be used to illustrate the way in which these perceptions exist sided by side. Two business practitioners come to terms and have their lawyers memorialize a deal as a formal written contract. The business people have a good idea of what it will take for them to perform and what they expect to receive in exchange. Then the lawyers go to work. The heart of the agreement could lie in one sentence such as "licensor grants to licensee a nonexclusive right to make, use, and sell products under patent X." Of course, lawyers try to give life to the intentions and business expectations of their clients but they also draft numerous clauses to invoke various technical rules of law. They insert integration clauses to invoke the parol evidence rule. They insert choice of law clauses to control the convenience and favorability of a forum for resolving a dispute. They insert indemnification clauses, warranties, force majeur clauses and any number of other "boiler plate" provisions all aimed at shifting the risk of a loss or instructing a court or other adjudicative body how to resolve a dispute should the relationship fail. Contract law thus gets viewed both as the blueprint for business plans and the club wielded in a fight.

B. European Legal Culture: Germany and France.

In the case of common law systems, one can sift through the jurisprudence to piece together a cogent understanding of much of the perception of agreement formation. Legal rationales and the principles that form them must be laid out for all to see and comment upon. This is not generally true in civil law systems because it is the code that gives effect to cultural values. In most cases, these codes are laid out matter-

of-factly in simple language without much commentary.[29] Thus, one wishing to analyze these cultural attributes cannot find direct evidence in either court decisions or legislation per se. Greater reference must be made to factors outside of the jurisprudence such as historical developments, ethnic culture, and other societal influences.[30]

Both Germany and France have civil law systems as does all of continental Europe. While it is true that all civil codes share some degree of commonality such as the general establishment of principles of law upon which statutory augmentation provides particularity, it is a mistake to believe that they all share a common heritage and are substantively uniform.[31] A review of the historical developments of the legal system, the government, and culture of each nation is necessary to understand the differences in the contents and application of each of the codes.

As one commentator recently noted in addressing what breathes life into the law of each of the constitutional governments of the world, "The hallmark of statehood is independence, and domestic norms and institutions derive legitimacy from native cultural tradition-the nation's *Volksgeist.*" [32] When one considers legal developments that affect business matters, an even broader frame of reference must be summoned. "What constitutes 'property' can be determined only in light of a particular politico-economic system; and that is even more the case for 'freedom of economic activity."[33]

i. German Legal Culture. The current version of the German Civil Code was first drafted in 1897. It is comprised of many of the juridical principles of Roman Law combined with German legislative measures reaching back as far as the 13th century. "Special statutes and customs" pronounced by German and Holy Roman emperors as well as cannon,

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29 *See generally*, Arthur T. von Mehren, *Civil Law Analogues to Consideration: An Exercise in Comparative Analysis*, 72 Harv. L. Rev. 1009 (1959) and George E. Glos, Comparative Law (Rothman 1979).

30 This is not to say that these factors are insignificant in common law systems. Rather, these factors are more readily cited in judicial opinions as justifications for holdings and thus are often laid out for the reader. *C.f.*, On the Common Law,*supra note 16* at 5.

31 The Justinian code divided the law into subjects of persons, property, succession, and obligations. Many, but not all civil codes adopt this formulation. Indeed, as positive law impacts more and more aspects of life, so too each jurisdiction that addresses them must add new categories and codes. *C.f.* George Glos, Comparative Law, *supra note 29* at 6.

32 Anthony Ogus, Property Rights and Freedom of Economic Activity,125, Constitutionalism and Rights (Louis Henkin and Albert Rosenthal, ed. Columbia University Press 1990).

33 *Id.*

regional, and local laws were also inculcated into the code over time.[34] To a much greater degree than most other codes, the German Code has had numerous modernization efforts aimed at presenting it in a "logical and systematic manner and in making legal argument turn on deduction from its axioms."[35]

Thus, in Germany, legal thought came to be viewed as a sort of calculus. The premise being that judges should be able to solve legal problems based upon a reduction of legal maxims or principles found solely in the Code. Strict application of such a construct would leave no room for any analog to the doctrine of *stare decisis* since no new principles of law could ever be developed from the bench. Each case would be considered a discrete problem with no cognizable relationship to future or past cases.[36] The Code would prescribe the law, the judge would merely apply that law. While that may have been the hope of those who drafted the code, few would deny that today the inevitable gaps that lie in the code that are filled in with judicial interpretation. These interpretations receive great deference in subsequent proceedings but commentary and scholarly work are just as important.[37]

Some of the most profound legal developments in Germany stem from relatively recent large scale economic changes. Since about 1840, Germany has undergone rapid industrialization. During the early stages of this industrialization it was generally held that state intervention and control in the economy should be minimized so that private business could prosper. Predictably, the boon in textiles, chemicals, pharmaceuticals, and electrical products that followed was accompanied by extreme cartelization.[38]

"Freedom of Contract" was viewed as an essential element of the formula of nonintervention. Together with the recognition of the importance of property rights, the law was to be used to foster economic development. In fact, Kant addressed this point well before Germany's industrialization when he noted that "the recognition of property is clearly the first step in the delimitation of the private sphere which protects us against coercion."[39] Precisely what "Freedom of Contract" meant to German society is quite another issue. In earlier times, freedom

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34 Horn, Kotz, and Lester, German Private and Commercial Law 10 (Clarendon Press 1982)

35 *Id.*

36 Fritz Moses, *International Legal Practice*, 4 Fordham L. Rev. 244, 261 (1935).

37 *Id.* at 265.

38 Oddly, this lasted up until 1945. One would have suspected that this would have been viewed as a social malady that required legislation.

39 Property Rights and Freedom of Economic Activity, *supra note 32* at 125.

itself was generated by the mutually beneficial relationship created from the peasant paying his due to the feudal lord in exchange for his creation of an ordered society (by force if necessary). Freedom of contract in such a system requires one to be mindful of his role in contributing to that order. That may mean putting up with impositions imposed by that feudal lord or by the government.

As society continued to industrialize, legislative action had to be enacted to assuage the shareholder fraud, health problems, and other dangers that eventually arose. A great deal of social legislation impinging upon the freedom to contract also followed so that by 1884 even this freedom was considered "severely curtailed" by many.[40] Germany, however, officially clung to the ideal of the primacy of contractual freedom even though reality suggested that one's ability to engage in business was substantially tempered by government's willingness to permit it.

A comparison between the German and American legal formulations in another area is useful in further illustrating the difference in the notion of what economic freedom means; the law of takings. Under the Fifth Amendment of the United States Constitution, private property shall not be taken without providing the property owner with just compensation and due process of law.[41] The German Constitution has a much different formulation. The government is also compelled to pay a private property owner compensation for a taking. Further, there is a requirement for legal process. Article 15 of the German constitution, however, goes on to state that "land, natural resources and means of production may for the purposes of socialization be transferred into public ownership or other forms of publicly controlled economy."[42] and Article 14[2] states that "property imposes duties. Its uses should also serve the public weal."[43] One might argue that the effects of the German and American provisions are not radically different. However, the positive statement of the German provisions are markedly different from the tenor of the United States Constitution. The American formulation establishes what the government may take as a consequence of what the government may not do ("nor be deprived of ...property").[44] The German formulation is reflective of the conditional nature of the control one may exercise over private

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40 *Id.* at 5.

41 U.S. Const. amend V.

42 Property Rights and Freedom of Economic Activity, *supra note 32* at 130.

43 *Id.* at 133.

44 U.S. Const. amend V.

economic affairs.[45] Recent historical developments further highlight this point. During the World Wars, the German state controlled every aspect of business activity. Centralized administration and governmental licensing and approval mechanisms were a fixture of every aspect of business. This situation was, of course, reversed by the imposition of the currency and market reform measures under the Marshall Plan following the Second World War but many German merchants were inured to the ubiquitous involvement of government in their everyday affairs.[46] Further, Germany's ratification of the 1957 Treaty of Rome imposed another level of regional regulation and control (European Economic Community) that impact on the freedom to contract.

This is not to say that Germans have more or less freedom to contract than Americans. Rather, it is a nuance indicative of an altogether different perception of freedom. The German constitutional right to freedom of contract should be understood to be a right enunciated because the freedom would not be be assumed in the absence of such a statement.[47] So, for example, it makes sense that the German laws have one of the most comprehensive lists of economic activities that cannot be undertaken without a license.[48] Indeed, German "jurists and political scientists...employ [the term] *soziale Marktwirtschaft* (social market)" to describe the relation between their public and private sectors.[49]

Thus, the German view of private law is descendent from an amalgam of legal sources, economic, historical and cultural tugs; towards

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45 Certainly, American legislation has been actively influencing the American perception. Still, however, it is believed that the German constitution and it positive statement of the subordination of certain rights to the public good is a direct reflection of traditional German perceptions of the relationship between private undertakings and public good or government action.

46 It must also be noted that German conceptions of individual rights viz a vis the government have undergone enormous changes since WWII. The Basic Law of 1949 defined individual rights as inalienable and inviolable. This has been accomplished largely through study, modification, and adoption of American Constitutional principles. *See eg*, Helmut Steinberger, America and German Constitutional Development, 213, Constitutionalism and Rights (Louis Henkin and Albert Rosenthal, ed. Columbia University Press 1990). Hundreds of years of behavior still cannot be denied, and so one must conclude that the common perception of the relationship between government and individual is more tolerant of the involvement of authority figures than it might otherwise be even though positive laws governing privacy exist.

47 Indeed, freedom of contract is a basic constitutional right of all German persons today. It falls under general freedom of action. 1 *Grundgestez* (Basic Law) Para. 2 (1949).

48 *Gesetz zur Ordnung des Handwerks (1969).*

49 Constitutionalism and Rights, *supra note 32* at 141.

individualism at one turn and back toward steep involvement of the government at another. Emphasis on logical deduction from axiomatic principles coupled with the trend toward centralization of administration makes this view of law more mechanical than that of the Anglo-American tradition but it is certainly not radically different. However, while Germany today is a nation proud of its democratic ideals and individual liberties it is clear that involvements and flirtations with despotic or centralized governance have left a mark on the legal culture. It may be unwise to overgeneralize but it is certainly true that German contracting practice reflects this vacillating tradition of freedom and governmental involvement.

ii. German Contract Law and Practice. The German Code establishes the requirements for contract formation in clear and concise terms.[50] It states that a properly formed contract arises only when parties with capacity to contract produce a corresponding offer and acceptance. Notions of capacity, offer, and acceptance are not all that different from Anglo-American law, however, there is no consideration requirement.[51] Interestingly, the German civil code formulation also contemplates an instantaneous event-driven model of contract formation. However, as will be seen below this is not the way in which German business practitioners behave.

German contract formation also differs from Anglo-American law in that in addition to requiring an objective manifestation of an intention to be bound, the parties must also evince a concomitant subjective desire to be bound. This is accomplished through the German formal requirement of "the declaration of will."[52] Under it, one must state their intention to conduct the "juristic act" of contracting so that it is clear that the promises are a reflection of the will of the parties.[53] The objective intention may be manifested in any number of ways including acts such as tender of payment, oral representations, or written representations of intention. Ideally, these acts or words must be in synch with the actual subjective intention, otherwise, there is no contract.[54] As a practical matter, however, courts and other contract interpreters (such as administrative agencies) look almost entirely to the objective manifestations of intention. As is widely recognized in American law, proof of subjective intentions is simply too difficult for a court to

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50 German Private and Commercial Law, *supra note 34* at 71-89.

51 *Civil Law Analogues to Consideration, supra note 29* at 1072.

52 § 133 *Burgerliches Gesetzbuch* (BGB), 18 August 1896, BGBl 195.

53 German Private and Commercial Law, *supra note 34* at 76.

54 *Id.*

evaluate.[55] Additionally, commentators have noted that an examination of will based solely on objective intention is consistent with a detrimental reliance theory upon which German contract law may be justified.[56]

Even though the German law of contracts maintains the artificial requirement of subjective intent, other legal doctrines suggest a strong current of legal realism. Courts often look to usage of trade, custom, and course of dealing when merchants are involved. Thus, despite the otherwise formal requirements of German contract formation, silence can serve as acceptance.[57] Unlike common law doctrine, offers are always considered to be open for a reasonable period of time after they are made.[58]

Numerous statutes further reflect the German perception of contracting. Many have been legislated specifically to curtail some of the abuses brought about by the practice of using adhesion contracts.[59] The effect of these statutes is to have a number of terms and obligations implicitly read into all contracts by operation of law. An obligation of good faith and fair dealing, prohibitions on contracts that are contrary to public morals, exclusions on terms which benefit one creditor to the detriment of others, and many others have been promulgated.[60] Formalities akin to the Anglo-American technical features of contract law such as the Statutes of Frauds are also mandated by statute.[61] Failure to comply with them renders certain contracts void or voidable.[62] Some contracts also require the review and attestation of a notary while others require even more rigorous review.[63] Thus, for example, "a contract by which a person obligates himself to convey land" requires the participation of the court to render it properly formed and is called a judicial contract.[64]

Still, in many respects, the German conception of contracting is not all that different from the American view. Germans have frequently

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55 *Cf., Lucy v. Zehmer*, 196 Va. 493, 84 S.E. 2d 516 (1954).

56 German Private and Commercial Law , *supra note 34* at 76-84.

57 *Id.* at 79.

58 German contract theory is heavily steeped in injurious reliance sentiments. Thus, allowing an offerer to revoke the offer before acceptance is seen as inviting injurious reliance by the offeree who may have been making preparations in anticipation of acceptance.

59 General Conditions of Business Act of 9 December 1976 (AGBG (BGBl I, 3317).

60 §242 BGB, §138 par 1 BGB, §242 BGB.

61 §§126-129 and §313 BGB.

62 German Private and Commercial Law, *supra note 34* at 87.

63 *Civil Law Analogues to Consideration, supra note 29* at 1132.

64 Rudolph Huebner, History of German Private Law 512 (Francis Philbrick, trans., Rothman 1968)(Citing the Civil Code at § 313, among others).

referred to a contract as a "blueprint or plan" which "lays down...the stages and fixed rules by which the parties are to arrive at the future result"[65] while fully recognizing that formation marks the creation rights and duties.[66]

Even the requirement for a declaration of will which encompasses a subjective intention to be bound works towards this end. Commentators have noted that "the cardinal feature of a declaration of will is that it is directed towards a specific legal result."[67] Together with offer and acceptance, it defines the point at which a contract has legal effect.[68]

In interpreting contracts, German courts freely look to the subjective intention of the parties and see no reason to "adhere to the literal meaning of the words."[69] Taken together with the provisions that are implicitly understood to exist in all contracts or read into the specific type of contract one is dealing with by trade practice or custom, it is clear that there is much in a German contract that simply does not need to be written. Of course, this is only true if one has confidence in the manner in which a German court will find the actual intention of the parties and one understands the provisions that will be read into such contracts. Consequently, much of the boiler plate that is commonly found in contracts drafted in the United States does not appear in German contracts.[70]

It is not unusual in German business to enter a contract with the intent of resolving the operational details of a transaction apart from the terms of the written contract.[71] Operating in this manner requires

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65 German Private and Commercial Law citing *Geburtstag von E. v. Caemmerer* (Karlsruhe 1973), *supra note 34* at 90.

66 Under German law a mere failure to perform is called an irregularity as distinguished from a positive breach which has a scientor element. German Private and Commercial Law, *supra note 34* at 206.

67 *Id.* at 74.

68 However, again evidencing the role of subjective behavior, fault plays a much greater role in providing for contract remedies than is found in the Anglo-American system. German law, for example, contains no rule similar to *Hadley v. Baxendale*. Even damages that are not foreseeable are compensable. *Id.* at 112-113.

69 §133 BGB.

70 Personal conversations with retired European Intellectual Property Lawyer Erich Horak, fall 1992, and Professor Karl Jorda, spring of 1993.

71 *See, eg.*, G.A. Bloxam, Licensing Rights in Technology: A Legal Guide for Managers in Negotiations, 143 (Gower Press 1972). Bloxam cites an instance in which he represented a British licensor negotiating with a prospective German licensee. The two sides exchanged proposed drafts much to the dismay of each other. The German document was four pages long, general, and short on detail. Definitional matters and rights and duties were left largely to usage of trade. The British version was fourteen pages long with specific definitional terms, rights, and duties provided in the text.

confidence that the relationship that is to be forged will be amicable enough so that even when misunderstandings arise, the parties will be able to determine who must pay for a given expense, who must provide unanticipated services, and who must bear certain liabilities. Three to four page contracts that merely set forth the general principles upon which the parties shall act are common in German transactions covering even the most complicated issues. For example, a domestic patent license might merely address the nature of the license (exclusive, nonexclusive, or sole), royalty provisions and broad statements of general principles necessary to the relationship. German intellectual property contractors still do not generally perform until a signed written contract is executed and contract formalities are perfected.[72]

Common German business practice then, contemplates an ongoing series of contract formations. Formation of the first contract is complete when the general principles that will guide the relationship are agreed to and formalities are complied with. The business practitioner probably does not perceive any formation until any mandatory governmental involvement is also satisfied. While the parties can freeze the events at any time to determine who bears the liability for performance or failures to perform based upon the principles outlined in the formal contract, unforeseen events are expected to require modifications. These modifications comprise new contracts in the Anglo-American sense because they assign rights and duties that were not contemplated at the time of the formation of the initial contract. However, the German perception of these modifications is that they are part of the original agreement.

iii. French Legal Culture. Despite France's long history, one need not look back much farther than the French Revolution to understand modern French Legal Culture. With the revolution of 1789 came "Decrees Abolishing the Feudal System" and "the Declaration of the Rights of Man and the Citizen." An attempt to cement the ideals of liberty, equality, and fraternity into the culture was underway.[73] Freedom of speech, press, assembly, religion, property ownership, due process, and equality before

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72 Horak interview, *supra note 70.*

73 As with many social revolutions, the proponents of the movement thought that they could change their cultural predispositions by changing their language. Thus, many thought that replacing the designation Madame and Monsieur with Citoyenne and Citoyen would purge the nation of its imperialistic nature. The rise of Napolean suggested otherwise.

the law were pronounced as basic human rights despite the fact they did not always find their way into immediate practice.[74]

Private property and economic freedoms were viewed as items that were inseparable from individual liberties. Thus, the Declaration included a restriction on the taking of private property so that it could only occur when the necessity was a '*legalment constatee*'. Thus much as in American constitutional law, rights were defined by marking off a piece of terrain into which the government could no longer traverse at its will. Economic opportunity was considered such a piece of legal terrain.[75] Thus, *Loi 1791* has remained on the books and articulates the principle that liberty of commerce and industry "prohibit local authorities from creating public enterprises."[76] It must be mentioned however, that after the economic woes of the 1930s the creation of public enterprises has been permitted in many instances and the 1946 Constitution further provided that monopolies that serve the nation are property of the community.[77]

These ideals, with their bent on individual freedoms and rights, were codified in 1804 under the Napoleonic Code.[78] Rationality was supposed to be its cornerstone. The code was purposely drafted with a fresh start in mind. It was to embody all of the legal principles necessary to live a civilized life under the principles of the revolution and was to be centrally administered. Nevertheless, many of the earlier French customs still remained and its simplicity and generality led one of its draftsmen to state that he "could only hope that as long as judges were 'imbued with

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74 The Columbia History of the World, 766, 767 (1987).

75 Property Rights and Freedom of Economic Activity, *supra note 34* at 127.

76 *Id.* at 141.

77 Most of these are "natural monopolies" such as public utilities. *Id.* at 141.

78 Prior to the revolution, the nation was extremely stratified. The monarchy and nobility lived in a wholly different world with different rules, taxes, and behavior than that of the peasantry and urban middle classes. A king was to be retained in the original constitution but with severely limited powers; the legislature was to be the real power. Of course, the Reign of Terror saw an end to this formula and a new republican form of government inserted. The nation stood divided until Napolean Bonaparte rose to prominence. Although he remained in power largely by force, most of the citizenry viewed him as the guarantor of the Revolution. He was a devotee of Rousseau and Enlightenment thinking despite his rather unexplainable reinstitution of an aristocracy and a Legion of Honor. As France fought numerous enemies from outside its borders and quelled numerous insurrections and power struggles inside its borders, nationalist views began to meld with legal developments. Private property ownership was extolled as an absolute right but only if one was loyal to the Republic; a patriot. The Columbia History of the World at 771-782.

the spirit' of the code, they would apply its articles predictably." [79] Academic commentary, published reports of case decisions, and treatises were heavily relied upon.[80] Still, the shining distinction of French Civil Code was that it represented a "clean break" from the old (feudal) ways. Principles were set out broadly and many gaps were left unfilled leaving French courts a degree of discretion that is uncharacteristic of other civil law systems.[81] The timing of the French Revolution, its inclusion of economic freedoms, and the proximity that such events had to the American Revolution have imbued French legal thought with a perception of freedoms similar to what is found in America.

iv. French Contract Law and Practice. While the French Civil Code has undergone many amendments and additions, it is still, in its essence, the Napoleonic Code. Under it, a contract is formed only by the consent of parties who have legal capacity. They must set forth an object of the contract and must do so for a cause which does not violate the law or public policy.[82] It too contemplates an instantaneous formation.

The object of the contract is "a thing which one party obliges himself to give, to do, or not to do."[83] This object must not be illusory nor illegal but need not be bargained for nor be in the nature of a detriment as is the case under the Anglo-American doctrine of consideration. Cause is "a description of the generalized motivation of the transaction"[84] and is also a cousin of the consideration doctrine of common law but again, there is no requirement that it be bargained for or that it be in the nature of a detriment to either of the promising parties. While the absence of cause may render a contract unenforceable, the French parole evidence rule and

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79 Peter G. Stein, *Judge and Jury in the Civil Law: A Historical Interpretation*, 46 La. L. Rev. 241, 252 (1985).

80 *Id* at 253.

81 The German proclivity towards the law as a calculus is not generally seen in France. "In most treatises on civil liberties the exposition of the law is preceded by historical developments or by a few general considerations. Until recently constitutional law tended to be considered in French law schools as a kind of poor relation of law teaching. Jurisprudence is not generally taught, and where it does exist, it is not compulsory...A rather sterile form of legal positivism has dominated...*Which French philosopher* has given lawyers the kind of intellectual stimulus provided by A. Meiklejohn?" Roger Errera, The Freedom of the Press: The United States, France, and Other European Countries, 70, Constitutionalism and Rights (discussing livelihood of civil rights in France), *supra note 32*.

82 French Civil Code, Art. 1108.

83 French Civil Code, Art. 1126. *See, also*, Michael Alter, French Law of Business Contracts 33 (Louisiana State University Press 1981).

84 *Civil Law Analogues to Consideration, supra note 29*, at 1024.

the presumption afforded the existence of cause normally preclude such an outcome.[85]

The French civil and commercial codes also have provisions akin to Anglo-American technical features of contract law such as the Statutes of Frauds. However, formality is a matter that receives much more attention than the occasional common law trap for the unwary. Perhaps the epitome of this is the Notarial Contract. Just as in Germany, the French do not share the American view of the Notary as something of a minor functionary. Rather, a Notary is an important official who is required to have some formal training in the law.[86] His approval and signature is required before certain contracts can be enforced.[87]

The emphasis on formality can also be related to a desire to obtain certain policy objectives such as abatement of unfairness. For example, under some circumstances, a contract which expresses an objectively disproportionate exchange will be held unenforceable.[88] Likewise, improper characterization of the cause of a contract can be a grounds to render it unenforceable. Where a party labelled an interest charge as a commission the entire contract was set aside to avoid a usurious outcome.[89] Notaries are supposed to preclude such unfair terms from achieving contract status. This is done, in part, through enforcement of formalistic requirements. When compliance is certified, a contract might be considered to be properly formed.[90] In theory then, formality may distinguish abstract, unenforceable promises from those which are enforceable, ameliorate unfairness, and serve as a demarcation of the end of negotiation and the beginning of contract.

French contract law maintains consensualism as a bedrock principle. Ideally, parties may freely express their contract in any manner they

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85 *Id* at 1132. However, as is the case in many nations, a recordation provision applicable to patent licences is found in the Patent Law. Under it, no law suit may brought against a third party infringer by the licensee unless the license is first recorded in the Patent Office. Art. 46, French Patent Law of 1968 as amended in 1990. Failure to properly record renders the agreement unenforceable against third parties rather than rendering the agreement between the contracting parties unenforceable as against each other.

86 *Id.* at 1024.

87 Patent assignments are one of many types of agreements that fall into this category. French Law of Business Contracts, *supra note 83* at 41.

88 French civil law divides property into movable and immovable objects. In a contract for the sale of a moveable object, if the property or value given in exchange for the object is worth less than 7/12 its fair market value, it will not be enforced. French Civil Code Art. 1674.

89 *Civil Law Analogues to Consideration* , *supra note 29* at 1072.

90 *Id.* at 1015 (A comparison is made between the role of consideration and various civil law mechanisms for determining when a contract is legally enforceable. Notarial action is one such mechanism.)

desire. Reality, of course, suggests that this is more an expression of desire than practice. Evidentiary concerns, contractual interpretation based upon business practice, and a need to avoid statutory pitfalls of the ilk described above (the 7/12 rule) militate in favor of formalistic compliance. Thus, contracts that tend to evidence a transaction of particularly valuable property have rigid formalistic requirements. These "solemn contracts," which include patent assignments, are viewed as exceptions to the consensualism ideal.[91]

It is well documented that in most dealings "for the French, the essence is to agree on basic general principles that will guide and indeed determine the negotiation process afterward. The agreed-upon principles become the framework, the skeleton, upon which the contract is built."[92] Both the French lawyer and the French business practitioner do not behave as though the agreement is an instantaneous occurrence. As in Germany, a multi-stage formation process is perceived. When the subject matter is of particular significance, governmental action also comprises part of this process but only to the extent that notarial action is required. While the role of governmental regulation is not insignificant, it is probably not viewed as a stage in contract formation as is likely the case in complex German dealings.

C. Japanese Legal Culture.

Many commentators have noted that in Japan, positive law does not play the central role in society that it occupies in the West.[93] Rather, harmonious relationships that flow from a set of ethical duties govern the conduct of parties. These duties are based, in large part, on the status one has in a complex social schema. Many of these mores descend from the Confucian and Buddhist ideals and native philosophies mixed together with an indigenous warrior code of honor. Over time, they have been translated into *Giri*, or rules of behavior.[94] Under these rules, recourse to law is

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91 French Law of Business Contracts, *supra note 83* at 41.

92 Jeswald W. Salacuse, *Global Deals: Negotiating in the International Marketplace*, 68 (Houghton Milfin, Boston 1991).

93 "It is possible to discern the most fundamental principle of life for each civilization and, consequently, the most central principle of its social organization. Law can be said to be that principle for the Western civilization, but not for other civilizations." Surya Prakush Sinha, Jurisprudence in a Nutshell: Legal Philosophy, 8 (West 1993).

94 Neoconfucianism as espoused by the Chinese scholars, Wang Shou-jen (1472-1529), Wang Fu-Chi (1619), and Tai Chen (1724-1777) imported into Japan provided the backdrop for much of this. In many ways, this thought was much more pragmatic than earlier Confucian constructs which held that conduct must always be guided by the duty one owes the other as a result of the relationship between the parties such as father to son or teacher to pupil. Wang Shou-jen, for example, initiated the

generally not favored because it means that the parties were unable to function together and that they must bring an outsider into a private matter to resolve their differences; proof that the parties were unable to fulfill their ethical obligations or social duties.

Legal rights are not generally viewed with the preeminence that they receive in the West. Here, one must be careful to distinguish between legal doctrine and ethnic culture. Japan's constitution, drafted pursuant to the terms of its surrender in World War II, provides for individual rights and freedoms that mimic those found in the US Constitution. Until recently there were not even words in the Japanese language to describe many of these core principles. The Japanese had completely different cultural, philosophical, religious, legal, and political traditions from those of the United States at the time it adopted its rights.[95] Thus, it would be curious if the two countries would have similar perceptions of what inviolate, individual rights are.

In fact, in years past, some have regarded as destructive, the sense of individual rights as they are practiced in the West. They were sometimes seen as depersonalizing and thus erosive of the Japanese social structure.[96] After all, if everyone has the same legal rights then they must be socially equal which is contrary to the hierarchical structure that defines proper behavior. This view of the role of law in

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purposeful practice of rewarding good deeds and punishing evil ones at public events such as banquets before people of considerable status. This was one way to obtain "proper" behavior. Tai Chen discredited the Sung philosophy which entertained a more mystical notion of learning good behavior based almost entirely on spirit or ch'i. Chen believed that "learning, careful investigation, exact thinking, clear reasoning, and sincere conduct" were much more important than merely meditative acts. While Weng Fu-chich was a proponent of the Sung philosophy he also believed that self enlightenment was no way to run a government. To him, a king was an absolute necessity to an ordered society. Thus, the ideals incorporated by the Japanese were somewhat different than those found in classical Confucianism.

Legal positivism was also not unknown in China and thus to those who borrowed from it. This can be seen in the works of Shang Yang (?-338 B.C.) and Han Fei (280-233 B.C.) who are the most widely known "legalists." They sought to discredit Confucian views with the instrumental notion that the threat of punishment and sanctions are what people use to determine how they will act. The law, these thinkers maintained, was a tool for structuring penalties and sanctions. Thus, the view that one's social status and duties govern conduct was not monolithic in the East. However, the instrumental view of law was certainly not nearly as important as in the West. Arthur W. Hummel, Eminent Chinese of the Ch'ing Period, 695-699, 818 (Ch'eng Wen 1970) and L. Carrington Goodrich, Dictionary of Ming Biography: 1368-1644, 1408-1412 (Columbia University Press 1978). *See also,* William P. Alford, *The Inscrutable Occidental? Implications of Robert Unger's Uses and Abuses of the Chinese Past,* 64 Tex. L. Rev. 915 (1986).

95 *See eg,* Lawrence W. Beer, Constitutionalism and Rights in Japan and Korea, Constitutionalism and Rights, at 227.

96 Minear, Japanese Tradition and Western Law 152-164 (Harvard Univ. Press 1970).

Japan has been changing in recent years. The pragmatism of the business world demands that the legal system be used to provide solutions to matters that are unsolvable by ethical rules alone. However, the retention of cultural proclivities that is particularly strong in Japan makes a real tension between the divergent traditional views of the legal process and the recent pragmatic one.

To understand why this is so requires a further digression into Japanese social history. Japanese society prior to the Meji restoration was feudal.[97] Social order was maintained almost exclusively through *giri.* Subordination of the junior to the senior as well as a duty to look out for the care of the junior owed by the senior permeated the culture. Harmony and the sanctity of the interest of the group rather than the individual were foremost.[98]

In fact, even though a penal code was first adopted in 1742 during the era of the Tokugawa Shogunate, it was thought to be instructive rather than compulsive. Judges rendered rulings to teach society how to behave rather than to resolve an individual case. To be sure, Tokugawa era courts adjudicated matters brought before them but the emphasis was not on dispensing individualized justice in the western sense. The effect of the law and ethics subordinated the role of the individual to that of the group.[99] From that time until recent years this view of the role of law extended into civil matters. Japanese citizens have more often than not "resorted to the more convenient and less expensive informal dispute settlement devices which had their roots in feudal Japan." Intermediation by those higher in the social strata as well as the informal involvement of family and community members were most heavily used.[100]

During the Meji restoration (circa 1868; the period following Admiral Perry's famous visit), Japan adopted a civil code owing much of its origin to the civil codes of both Germany and France. Japan had committed itself to westernization in almost every imaginable endeavor during this period. In 1889 it established itself as a constitutional monarchy based upon the schema found in the Prussian Constitution. A series of civil codes were put into place but they did not serve the function of dispute resolution very well since the codes did not reflect the way in which Japanese society actually functioned. Indeed, Karl Llewellyn would have been left scratching his head at the matchup.

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97 *Id.*

98 Jurisprudence in a Nutshell, *supra note 93* at 56, 57.

99 Harold See, *The Judiciary and Dispute Resolution in Japan: A Survey*, 10 Fla. State L. Rev. 339, N19 (1982).

100 *Id.* at N31.

World War II added a new twist to the role of the judiciary in Japan at a time that western civil law was beginning to become well accepted. Authoritarian figures such as Tojo stripped the Japanese judiciary of its avowed independence in a de facto manner.[101] At the conclusion of World War II, the Japanese legal system saw its third overhaul in less than one hundred years. Judicial independence was reborn under a new Constitution which vested rights in the people rather than the Emperor. The American concept of Judicial Review was accepted part and parcel.[102] Still, while rights such as freedom of religion, assembly, and speech were heaped upon the citizenry through positive law, it must be remembered that these concepts were imported into the Japanese legal philosophy and were not indigenous to the culture.[103]

i. Japanese Contract Law and Practice. The current law of contracts is a civil law construct primarily based upon the German model in which individuals are free to contract for any legal purpose not contrary to public policy.[104] Determining what is contrary to public policy is left to separate legislation. Only offer and acceptance are necessary to form a binding contract. Even cause is not necessary to contract formation. Other formalities such as a writing requirement (Statute of Frauds) and integration requirements driven by rules such as a parole evidence rule are also absent. Most oral contracts are thus enforceable in Japan. Both specific performance and damages are freely awarded as remedies. [105]

To underscore the hybridized nature of the Japanese legal system one need only compare contract remedies based on a western style civil code with other areas less affected by outside influences. Despite the evolution of Japanese law from a code of hierarchical ethical code of social obligation to a western style constitution and civil codes, the cultural proclivities remain. For example, in unfair competition law "The traditional emphasis on apology as a remedy has not disappeared...[it is] embodied in the practice of *shazaikokoku*... when one party damages another's reputation or credit, the court may require that he publish an apology. Since it is consistent with notions of harmony and with private behavior, the apology resolves the dispute."[106]

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101 The judiciary was independent in name only since it worked under fear of severe personal remedial measures. *Id.* at 347.

102 *Id* at 349.

103 *Id* at 351.

104 Art. 90 Japanese Civil Code.

105 Art. 414 (1) and 545 of the Japanese Civil Code respectively.

106 *The Judiciary and Dispute Resolution in Japan, supra note 99* at 367.

The Japanese view of contractualism remains strongly relational. The *giri,* one might say, requires that transactions be negotiated only when relationships are in place. While the law maintains an instantaneous model of contract formation, the culture does not. However, once this relationship is formed, transactions that are agreed to will generally be scrupulously followed so that one is not perceived to be a social or business pariah.

ii. **Japanese Negotiation Paradigms.** Japanese social history has produced a legacy that can be readily observed in Japanese business practice as paradigms of negotiating behavior. The emphasis on relationship building has resulted in the proliferation of a number of techniques or models of negotiating that are employed to test whether the relationship that is to be built will be harmonious and beneficial. One must be careful to put these practices into their proper perspective. As one noted intellectual property lawyer has warned, "The typical modern Japanese licensing executive of today probably had more *international* experience, after including a residence in the United States or Europe for a considerable period of time, than his western counterpart and often has a higher degree of sophistication generally in international matters than many of his western counterparts."[107] Still, it is difficult to escape one's culture so it is worth studying this behavior if one is interested in the *perceptions* of one's negotiating counterpart.[108] These behavioral phenomena each have their own names attesting to their significance in the culture: *amae, haragei, tatemae, and honne.*

Amae is "a social hierarchy of dependency relationships" that is generated by the vertically hierarchical structure of Japanese society upon which a whole system of titles, responsibilities, and duties is built.[109] It is a complex system of status that depends upon what type of

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107 Tetsu Tanabe and Harold C.Wegner, *Japanese Patent Law and Practice,* 198 (AIPPI 1979).

108 Failure to understand these paradigms can be perilous from a negotiator's perspective. Relying on the Japanese party's experience in international matters for a common understanding of contract formation places one in the position only of knowing what has happened to them. It does not allow one to engage the Japanese party in constructive persuasion. The American cannot know how an agreement was fostered, could have been done better, or what factors contribute to the acceptance of an agreement unless he understands what is going on during the process of negotiating and contract formation. There is a wealth of information available on the Japanese view of negotiation that is beyond the scope of this paper. *See eg.,* Trenholme J. Griffin and W. Russell Daggatt, The Global Negotiator (Harper Business 1990), Don R. McCreary, Japanese-US Business Negotiations: A Cross-Cultural Study (Praeger 1986), and Boye Lafayette De Mente, Japan's Secret Weapon: The Kata Factor (Phoenix 1990).

109 Japanese-US Business Negotiations, *supra note 108,* at 4.

function one performs, what type of industry or governmental position they are employed in, age and educational background of the individual, as well as a number of other factors. Most importantly, however, it is conferred through seniority. One who understands *Amae* will have a reasonably good feel for the level of authority granted to the practitioner and how that person is to be treated. To a member of Japanese society this is implicit but to an American business person it is enigmatic even if one can intellectualize its meaning. Business cards are emblazoned with some indicia of the status of the card carrier but all of the manifestations of such indicia are not easily grasped by those accustomed to western business practice.[110] The significance of this paradigm is that if one is negotiating in Japan, agreement is unlikely to be reached unless communications are with a counterpart of appropriate status and seniority. This is loosely analogous to the American practice of ensuring that the agent has the authority to speak for the principal. It is just more difficult for the American to know what the parameters of such authority are.

Haragei is a "system of largely intuitive communications [which] utilizes paralinguistic cues, coupled with half-truths or superficially misleading verbal arguments with multiple semantic readings."[111] It is at once a combination of a communication of negotiation posturing, double meanings, and negotiation ambiance created by participants. [112] While Americans have their own set of expectations of what a business practitioner really means when words are uttered, they are not nearly as uniform or well developed as *haragei*. The full set of behaviors that comprise *haragei* are communicated relatively easily among Japanese citizens but do not translate well to the communications means of others.

Tatemae is the practice of establishing a business facade; a means of posturing so that one's true intentions are not revealed directly. In western practice this is known as "Bluffing, poker playing, and brinkmanship."[113] The flip side to *tatemae* is *honne* which is the undisclosed true nature of the party's intention. Obviously, this too has its western counterpart found in the undisclosed instructions given to the agent by the principal. Taken as a whole, the combination of the four paradigms defines the expectations and manner of a business negotiation

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110 *Id.* at 5.

111 *Id.*

112 Body language is one part of this paradigm but there is much more to it than this. Phatic communications are much more important in the Japanese culture than they are in the United States. Long periods of what would be uncomfortable silence in western culture, for example, are welcomed in business negotiations. Much of this is destined to remain mystical unless one is socialized in such a culture.

113 Japanese-US Business Negotiations, *supra note 108* at 5.

in Japan. It may seem odd that so much undisclosed testing goes into the evaluation of the reliability of a future relationship supposedly based upon trust and harmony. However, the practice implies a standard, though not monolithic, negotiation model hardwired into the society. It works because it is well understood and accepted in that culture.

Many of the nuances associated with these practices have been well documented by Westerners. For example, when a Japanese business person uses the word for yes ("hai") in response to a proposition, there is no agreement to the term proposed. Rather, the Japanese business person is acknowledging that they understand the terms that are being proposed; nothing more. A referral to a review board, committee, or some other amorphous bureaucratic body is often a method of communicating lack of interest in a proposal without being direct. Further, a request for more detail when western negotiators consider a deal all but complete may be a means for expressing affirmation of the arrangement in principle. While not always heeded, the Japanese displeasure with impatience and undue aggressiveness are also fairly well known in the West.[114]

When Japanese negotiators seem to spend considerable amounts of time on what Westerners might consider small talk and social activities it is not for lack of anything better to do. Understanding the background and the status of their counterparts is important to determining whether true objectives and behaviors can be distilled so that ultimately a harmonious and truthful business relationship may be formed. Relational expectations developed through the negotiating process, both verbal and phatic, have much more significance than the actual "closing" of a contract or deal.

Many Japanese negotiators understand the implications of these cultural differences very well. Yoshio Matsunaga, one Japan's most respected licensing consultants has noted that "the general way of thinking in Japan that domestic agreements may have only the important items determined in the document, leaving other items to be decided by negotiations each time the necessity arises."[115] He further notes that in international agreements it is important to have every detail spelled out but that negotiations after contract formation will be minimized.[116]

Currently there is a profound understanding in Japan that while relational business arrangement in which compatibility of purpose, good faith, and mutual reliance are prized in technology transfer agreements, many in the West view contract formation primarily as the birth of a legal

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114 *Id* at 41.

115 Yoshio Matsunaga, Successful Licensing To and From Japan, 3ed. p. 25(Techno Consultants Inc., Tokyo, 1989).

116 *Id* at 26.

relationship.[117] Thus, the modern Japanese licensing executive likely simultaneously maintains two different perceptions of what agreement means in this context. One is applied to international agreements and one applies to agreements completed solely between Japanese actors. In the former, there is a practical adoption of the view of the agreement as one arising almost solely out of the legalistic transaction while the latter is the more traditionally relational perception outlined in the preceding section. Each of course contains elements of the other.

D. Application. One need only consider a simple case of a service contract to see how the dynamics outlined above play themselves out. Consider a case in which a construction contractor wishes to engage a subcontractor. The contractor has a large housing development project that will take two years to complete. At each discrete stage of development, a painter must paint the completed housing units. This will give a painting subcontractor fairly steady work for the foreseeable future. The contractor thinks the right subcontractor has been found and seeks to negotiate the contract.

Under the French and German models, representatives of the two parties meet and discuss the technical aspects of the job to be performed. How much work needs to be done, what type of paint will be appropriate, general time schedules, and general pricing terms will be discussed. Many terms will be governed by trade practice, regulations, and statutes and will therefore not even be addressed. A formal written contract can probably be concluded in a page or two and then notarized. The parties feel completely free to set the price of the services as they see fit, they anticipate little governmental interference and are confident that issues that have not yet arisen can be dealt with as they occur. The parties then begin to perform.

When building inspectors arrive and determine that the paint used in the first month's worth of projects is unsuitable, the contractor will not look to the contract to determine who bears responsibility for the correction, rather he will look to trade practice and the relationship of the parties to resolve the matter. This is not tremendously different from the way in which a similar problem might be handled in this country. The difference lies in the contract itself.

The American contract would likely contain warranties and representations covering such eventualities irrespective of the degree of

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117 "Closing" a deal is not generally viewed as the culminating point in Japanese business. Rather, it is the mutual concurrence in the formation of a workable relationship. The deal or transaction will logically flow from the formation of such a relationship. The Global Negotiator, *supra note 108*, at 158.

attention given to these matters during the negotiations stage. The object of the American practice is to fully negotiate all of the terms before performance begins even if trade practice is later relied upon. The American lawyer has provided for failure of performance.

In the German and French model, the object is to establish the principle of the agreement with the understanding that performance standards will have to be determined in the future. It is perceived as completed in stages. The first agreement is how the parties will be guided towards the conclusion of further agreements that comprise part of the overall business relationship. These further agreements would be treated as modifications in this country. Trying to add certainty to uncertain events is not done with the same degree of vigor as is true in American practice.

Would the French and German parties be as willing to enter the same type of relationship with a foreign business concern having an unknown set of business practices? Would they be willing to look to the goodwill found in the parties' relationship to settle unforeseen events in a much more complex agreement? As will be seen below, these types of concerns are particularly troublesome in international technology transfer agreements and the differences affect the perception of when agreement is reached and when a contract has been concluded.

Under the same hypothetical case, the Japanese model would predict differences in the manner in which the parties concluded their arrangement. While the parties there might also desire a written contract and compliance with formalities, this would certainly be the least important aspect of contract formation. The parties would likely negotiate whether or not a sincere and trustworthy business relationship could be formed.

Questions such as whether the interests of the contractor and subcontractor are consistent, whether the parties approach their work with the appropriate degree of seriousness and craftsmanship, and whether each has the temperament the other desires in a partner are likely to get every bit the attention that a price term would receive. These determinations would be made using the negotiation paradigms outlined above. For example, silent periods that one might feel compelled to fill with discussion in American culture would be viewed as particularly important and telling in Japanese domestic negotiations.[118]

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118 A Korean lawyer recently stressed the importance of phatic communications throughout the East. After a negotiation exercise with a western lawyer at Franklin Pierce Law Center in October 1992, the Korean noted that the parties could have learned much that would have facilitated relationship building if they were in a more relaxed setting such as a sauna. He addressed this topic with equal vigor to that of obtaining a good profit from the arrangement.

A "deal" would be memorialized and would have legal effect but the parties would perceive the agreement as formed over a period of time in which a relationship developed. Agreement formation and instantaneous contract formation are incongruous under this model.

III INTELLECTUAL PROPERTY LAW AND LICENSING REGULATION

A. Background.

Technology transfer agreements are a special case of contracts largely because the *res* is comprised of intellectual property. World-wide, the substantive intellectual property laws that address this *res* have more in common than they differ.[119] Patent laws throughout the world, for example, all protect novel inventions or discoveries that have some commercial or industrial application or utility. Ordinarily, improvements must possess more than a merely obvious derivation of what preceded the invention.[120] The patent grant is universally held for a limited period of time in which the inventor or patent owner has the right to exclude others from practicing the invention. Further, patent rights are only granted if the inventor publishes his invention or discovery, usually in the form of the patent specification.[121] In this way, the public is benefited by the growth of scientific or technological development and the addition of the body of knowledge shared by society.

To be sure, differences exist in the way in which patents are administered and rights are affixed.[122] Many attempts at harmonizing the

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119 Common elements of economic consequence include the concept of exclusiveness as the core right, limited durational rights, supervening public interest doctrines, negotiability, trans-border comity, civil enforcement, and theoretical justifications. Robert M. Sherwood, Intellectual Property and Economic Development, 28 (Westview Studies of Science, Technology, and Public Policy, 1990).

120 The United States has a nonobviousness requirement. Most of the rest of the world has a similar requirement to show an inventive step. *Compare* 35USC§103 with Japanese Patent Law Art. 29(2) and EPC Art. 56.

121 All patent applications are kept secret until issued in the United States. 35 USC § 122 (West 1992). If an invention is not patentable, the proprietor can maintain its status as a trade secret. In most other nations trade secrets are vitiated by a pre-grant publication requirement. In a few countries, pre-grant opposition procedures have the same effect.

122 Under the French law a patent entitles one to the "exclusive rights to exploit the patented invention" French Patent Law of 1791 as amended in 1990, Art. 29. The German patent laws hold that "The effect of the patent shall be such that only the patentee is authorized to produce, put into practice, put on the market, offer for sale, or use the subject matter of the invention industrially, commercially, or

field have been aimed specifically at these aspects of intellectual property.[123] For the purposes of this discussion, however, most of these details need not be explored. If, as here, one is concerned with determining how the transfer of technology and the right to practice it are affected cross-culturally then one may assume that most of what precedes the grant of patent is not relevant. How different legal systems handle the subsequent treatment of the patent right as well as the manner in which they affect technology transfer is what counts here.

Patents do not, of course, define the beginning and end of technology transfer.[124] Trade secrets and know-how form another indispensable tool

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professionally. German Patent Law of 1972, Art. 6. Note that while both of these provisions grant the patentee a positive right to his invention, the nature of the right is to exclude others from using it. Thus, the codes do not operate differently from the American law which grants the right to exclude others from making, using, or selling the patented invention. 35 USC §154 (West 1992). The practical difference is that other laws must be written in a different tenor. For example, where one in the United States may allow others to use the patented invention by disclaiming part or all of it, the German law requires one to "declare [that] anyone in the public may use it." German Patent Law, Art. 14.

Many nations have different categories of patents which provide varying degrees of protection depending upon such factors as the degree of novelty or commercial importance of the invention. Petty patents, design models, and other such devices are not found in the US patent laws although there are design patents and plant patents. The use of such property in international technology transfer is a topic left open for further research.

Perhaps the greatest difference in patent law systems is that of whether a patent should be awarded to the first to invent or the first to file an application for an invention. The United States stands virtually alone as a proponent of the former. Nevertheless, this does not seriously affect the transfer of the technology. *See note* 154.

123 *See eg.*, International Convention for the Protection of Industrial Property, Mar 20, 1983, 25 Stat. 1372, T.S. No. 379; as revised: at Brussels on Dec. 4, 1900, 32 Stat. 1936, T.S. No. 411; at Washington on June 2 1922, 38 Stat. 1645, T.S. No. 579; at the Hague on Nov. 6, 1925, 47 Stat. 1789, T.S. No. 384, 74 L.N.T.S. 289; at London on June 2, 1934, 53 Stat. 1784, T.S. No. 941, 192 L.N.T.S. 17; at Lisbon on Oct 31, 1958, 13 U.S.T. 1, T.I.A.S. No. 4931; at Stockholm on July 14, 1967, 21 U.S.T. 1583 and 24 U.S.T. 2140, T.I.A.S. Nos. 6923 and 7727; The Draft Agreement on Trade-Related Aspects of Intellectual Property Rights of the Uruguay Round of the General Agreement on Tariffs and Trade (TRIPPS/GATT); and the Draft Treaty Supplementing the Paris Convention for the Protection of Industrial Property as Far as Patents are Concerned (WIPO, The Hague 1991).

124 Certainly, other forms of intellectual property such as copyright can be important in technology transfer. These types of intellectual property have become important as those with interests in computer software technology seek to protect their work. This is a controversial area of law and is greatly unsettled at present. This too is an area better left to future study.

for the entrepreneur who wishes to practice technology developed elsewhere. This is because while the patent claims define an invention and a patent specification describes it, frequently neither can provide the detail necessary to commercialize or practice it.[125] Thus, many licenses require that some arrangement be made to teach the licensee how to implement the new technology and some require an ongoing duty of technical assistance.

In almost every country, trade secrets and know-how[126] are protectable under contract law or the laws of unfair competition.[127] Again, the areas that are of concern here do not warrant a detailed inquiry into every aspect of these substantive topics. The manner in which their value is perceived and their transfer is regulated and manipulated under the law is what is of concern. Thus, as is the case in patent law, only aspects of the laws of trade secrets and know-how germane to the central issue of agreement formation will be presented.

B. The European Economic Community.

The formation of the European Economic Community (EEC) has had a modulating impact on licensing practice in both Germany and France. The European contract that ordinarily is comprised of just a few pages of broadly worded contractual principles now must not leave out certain specific contractual terms in the case of patent and know-how licenses. European contracts for transferring technology are taking on the appearance of detailed, contingency oriented Anglo-American contracts. Additionally, Americans who are used to relying on national patent laws and decisional law for determining the scope of patent protection unless

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125 In the United States, for example, the applicant is required to describe the best mode known for practicing the invention at the time that the application is filed. 35 USC § 112 (West 1992). Despite this requirement, patent specifications are not required to be engineering documents that reveal every possible facet of the manufacture of the invention.

126 Know-how is the skill and knowledge necessary to carry out a process or the manufacture of a product. Patrick Hearn, The Business of Industrial Licensing, 2ed., 4(Gower 1990). When it is discussed in relationship to proprietary rights it generally includes the requirement that it be maintained in secrecy but this is a debatable point. What aspect of it needs to be secret? For example, it may be that the use of well known catalysts are involved in the production of a certain species of chemical intermediary. Does the fact that the catalysts are used need to be maintained as a secret? One will get variable answers to such questions depending who is asked and what the precise nature of the process is but where well known steps or materials are used, the answer is that it is the art and techniques that surround the use of the catalyst which really comprise the proprietary aspect of the know-how.

127 Many countries protect trade secrets under tort theories, contract law, and criminal law.

limited by the terms of a contract find that certain rights are created contractually and not by mere reliance on national patent laws.

One of the preeminent goals of the Treaty of Rome which established the EEC in 1957 was to break down economic barriers to the free movement of goods throughout Europe.[128] This undertaking has not been without its difficulties since the treaty did not purport to make a country out of the continent but instead retained the national laws of the member nations (provided they did not work violence to the underlying principles). A development that paralleled the formation of the Community was the establishment of the European Patent Convention (EPC)[129] and the body that administers it, the European Patent Office (EPO).[130]

The EPC established a uniform system for granting patents in which patents granted under it are treated solely as national patents for each country in which they are declared. Thus, someone seeking a patent in France and Germany can use the same procedure to obtain patent grants in both countries but the patents that result are still treated as a French patent in France and a German patent in Germany. Both patents will share certain features (such as patent term) mandated by the EPC.[131] While the forthcoming Convention for the European Patent for the Common Market (CPC) promises to install a system of patents (Community Patents) that will be uniformly treated throughout the EEC, this has not yet become a reality.

It was recognized early on that the retention of national laws in a "common market" would create market segmentation that could result in wide price differentials for patented products in different countries.[132] A patent grant in one country precludes another from practicing that invention without the permission of the patent owner only in the country in which one has the patent. Thus, securing patents in countries with different patent terms, for example, would allow one to obtain an exclusive position for a period in which this was not possible in another country. One could charge more for its product in the protected country but would have to preclude importation from resellers in the country with the shorter patent term. If someone was to buy patented products in a

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128 Treaty of Rome (1957), Art. 35.

129 Convention on the Grant of European Patents (European Patent Convention) of 5 October 1973 as amended by Decision of the Administrative Council of the European Patent Organization of 21 December 1978 (The EPC).

130 *Id.*

131 "The term of the European Patent shall be 20 years as from the date of filing the application." EPC Art. 63(1).

132 Other practices unrelated to patent law make this so. For example, the widely different formulations for socialized medicine make pharmaceutical prices wildly divergent.

country with low prices and sell them in a second country with higher prices, they could obviously make a profit.

Even though the uniform granting procedures of the EPC eliminated some of these problems, other similar anomalies arose. In the landmark case of *Centrafarm v. Sterling Drugs* [133] the Court of Justice of the European Community addressed a tough problem that involved such an anomaly.[134] Centrafarm was purchasing pharmaceuticals from a British subsidiary of Sterling and selling them at a profit in the Netherlands. Sterling sought to enforce its Dutch patent rights to preclude the parallel importation.[135] The court held that patent rights used in one community member nation were exhausted once the goods were sold in any community member nation with an issued patent covering the goods.[136] Thus, once patented goods are sold, a purchaser may resell those goods for a profit in a higher priced market even though the goods are also patented separately in that market. Various extensions and expansions followed over the next several years but the exhaustion doctrine remains a central tenet of EEC licensing law today.[137] Thus, it would appear that EEC law casts a rather broad extraterritorial net that severely limits the scope of patent protection and mandates that one carefully consider where licensing and sales activities are conducted.

A second set of governing principles, the Block Exemptions[138] to Article 85 of the Treaty of Rome[139] grant patent licensing agreements the

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133 (1974) ECR 1147.

134 The earlier decision of *Deutsche Grammophon v. Metro*, (1971) ECR 487 was the precursor case. It was held there that national rights under a German sound recording statute are exhausted upon the first sale of a good.

135 Parallel importation occurs when goods are moved across two or more territories independently reserved to different licensees. The Business of Industrial Licensing, *supra note 126* at 94.

136 These cases required European courts to harmonize intellectual property exceptions under Article 36 with the Article 30 free movement of goods provision.

137 *Merk v. Stephar and Exler* (1981) ECR 2063(applies even if first nation has no parallel patent law), *Pharmon v. Hoechst* , (1985) Case 19/84(does not apply where product sold under compulsory license).

138 Commission Regulation (EEC) No 2349/84 of 23 July 1984 as published in the Official Journal of European Communities No L 219/15 on 16 August 1984.

139 Article 85 seeks to smooth out distortions to competition by prohibiting price fixing, output control, market splitting, tying and other anticompetitive acts. Penalties for violating this article include fines, injunctions, having violative contract provisions rendered void, and damages in civil suits.

freedom to operate in a manner that would be wholly unacceptable under U.S. Antitrust laws.[140] Article 1 of the Block Exemptions, perhaps the most important, is collectively referred to as the grey list and specifies acceptable extraterritorial provisions in patent licenses that would not be acceptable in other types of contracts.[141] Under it, sole and exclusive licenses, use restrictions, territorial restrictions, and some very limited types of covenants not to compete, are authorized throughout the common market provided that they are contracted for by the licensing parties. The territorial exemptions only apply extraterritorially if the licensor has a parallel patent in the territory in which a restriction is sought. Thus, if a British licensor wishes to contractually exclude a German licensee from selling his product in France, the exclusion will only be effective if the product is patented and licensed to another licensee in France. Article 2, the white list, adds further exemptions to the mandate of Article 85 but lacks effect outside of the licensed territory. Article 3, the black list, specifies certain provisions that, if present, will negate the effect of the block exemptions and render the licenses unlawful.[142]

The act of expressly contracting for exemptions to anticompetition regulations has become immensely important. Every party to a license agreement must consider the effect such a term or the failure to invoke such a term will have. They must also consider whether other licensees exist and have similar terms included in their agreements. As one commentator put it, "At the national level every patent and trademark law contains certain minimum safeguards against abuse of such rights...(eg, compulsory licensing)...Authorities are no longer satisfied with these minimum safeguards. They are now interested in the contractual conditions under which these patents and trade marks are licensed or exercised."[143]

Block exemptions to Article 85 also exist for know-how licenses and mixed patent and know-how licenses. They likewise comprise white, grey, and black lists that are similar to those for pure patent licenses. Further provisions require know-how to remain "secret and

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140 Kim, *Licensing in the EEC*, as reproduced in *Technology Licensing and Litigation 1992*, 371 (Practising Law Institute 1992).

141 Here, extraterritoriality is defined as effecting an area outside the one in which the restricted licensee operates under the terms of the license.

142 The White list is minimally important to the present discussion. The Black list proscribes agreements to restrain competition in unprotected territories, agreements not to compete in research and production, agreements to refuse to supply parallel importers, agreements that restrict customers from obtaining goods to conduct parallel importation, agreements to cap production quantity outputs, certain types of market splitting, tying provisions, charging a post expiry royalty, and several other types of restrictive agreements.

143 B.I. Cawthra, Patent Licensing in Europe, 2 ed.,4 (Butterworh 1986).

substantial,...*identified and described.*" It should also be noted that the exemptions are applicable only to bilateral agreements.[144] Thus, joint ventures and other task organized business organizations such as patent pools cannot invoke the provisions. Of course, a factor that complicates the use of these exemptions is that there is little certainty regarding how know-how is to be identified to satisfy the exemption.[145]

A further feature of both German and French law that is foreign to US patent law is the compulsory license as authorized under the Paris Convention.[146] This topic can be relied upon to generate discussion among those involved in intellectual property on an international scale. However, the fact of the matter is that such licenses are requested only in the rarest of circumstances and are granted even less frequently. Still, their existence is consistent with the more positive role generally expected of European governments in affecting property rights of individuals. Reflection on the German constitutional provisions concerning takings, for example, is in keeping the concept of a compulsory license for the benefit of the public weal. The EEC has also had its flirtations with burdensome licensing registration and approval procedures.[147] Today, this is largely a pro forma matter.

Taken together, the exhaustion doctrine and the block exemptions have produced a strange phenomena. While it is sometimes possible for one to invoke the exemptions without specific contractual provisions, it is widely believed one is required to include the nature of the right one is seeking.[148] Indeed, there is some evidence that the European authorities will "infer anticompetitive restrictions from the absence of positive rights being granted."[149] The complex nature of the block exemptions and other positive regulatory measures has encouraged the proliferation of the use of "Heads of Agreement" intentionally made nonbinding. Understandably, parties do not wish to bind themselves to dubious

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144 *Licensing in the EEC, supra note 140* at 386.

145 Placidio Scaglione, *Identifying Know-How Under EEC Regulation*, Les Nouvelles, 11 (March 1991). The problem was succinctly stated as "How does one document 'tour de main, tricks of the trade, operating skills that are in the mind of personnel and cannot be recorded?"

146 Article 5(A)(2) of the Paris Convention authorizes member nations to "take legislative measures providing for the grant of compulsory licenses to prevent abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work." EEC procedures involve petitioning the EPC comptroller to compel a patentee to license a patent.

147 Council Regulation (EEC) No 17 of 1962.

148 The exemptions are cryptically phrased. At first blush, it takes a considerable amount of deductive thought to determine how one must craft a term to invoke these provisions.

149 *Licensing in the EEC, supra note 140* at 381.

licenses. Terms such as "Subject to Formal Contract" on such preliminary documents are thus increasingly popular.[150] Perhaps this practice is replacing the simple binding agreements in principle that are popular in other types of French and German contracts as noted above.[151]

The multistage agreement completion model proposed for ordinary German and French contracts must be somewhat altered for intellectual property licenses. Since the nonbinding Heads of Agreement will more often substitute for the traditional, relational Agreement in Principle, the model must be adjusted closer to the more instantaneous construction assumed by the laws of France and Germany. However, the stepwise agreement completion model cannot be said to have disappeared completely. First, formality compliance and governmental involvement are more pronounced than in the case of the simple contract. It is also probably still true that French and German licensing practice will still be less involved in attempting to fix liability for future contingencies than is found in American practice since most of the impact of EEC action is directed only to regulating anticompetitive behavior. Thus, there is still room for a good deal of reliance on modifications, usage of trade, and business custom to address nonnegotiated duties and liabilities.

C. Japanese Intellectual Property Law and Licensing Regulation.

Modeled after western patent laws, the patent laws of Japan are based on Law No. 121, 1959.[152] Like the importation of its civil code, the patent laws were drafted as part of a deliberate Meji period effort to adopt western ways. Envoys were sent throughout the world to find ways to develop innovation with members finding their way to the US Patent and Trademark Office as well as those of many other nations.[153]

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150 The Business of Industrial Licensing, *supra note 126* at 11.

151 Several intellectual property lawyers from different nations provided the author with numerous drafts of intellectual property licenses that are one or two page documents. The agreements are very similar and can best be described as agreements in principle that will be used to guide relationships not necessarily determine liability. A key feature of the agreements is compliance with formalities (notarization being preeminent). It also worth noting that lawyers from Mexico and Venezuela who provided samples of such agreements thought that the development of their countries' intellectual property laws and treaties will mandate more complex agreements of the type described here. Thus, the move towards more detailed definition of contractual rights and more prospective scope may be a natural consequence of the globalization of intellectual property laws.

152 The Patent Law of 1959(Law Number 121) as Amended in 1988.

153 Under Tokugawa rule, the law of *shinkibatto* forbade innovation. This was an effort to keep Japan free from outside influence. Teruo Doi, The Intellectual Property Law of Japan, Sijthoff and Noordhoff, 6 (1980).

However, there are some fundamental differences between the Japanese and American patent laws. First, the US constitutional goal of establishing a patent system is expressly twofold: it is to "promote the arts and sciences" and it does so through "securing to inventors the rights to their inventions." Thus, while the system is focused on the benefit that American society is to derive, it also is very attuned to the individual rights that accrue to the inventor. Indeed, America stands nearly alone in its construction of a patent system that is designed to reward only the "first to invent".[154] The promotion of the arts and sciences as a whole comes through a contract between the government and the individual. If the invention is disclosed and taught to the public, the inventor will be rewarded with a seventeen year period in which others can be excluded from practicing it.

The purpose of the Japanese patent system is to "teach industry new innovations."[155] It is an express tool of the industrial policy of the nation.[156] As such, the focus of patent law remains on the ultimate social utility of the system and not so much on the inventor, or even the owner, of the patent. Fostering the development of industry is given effect in all aspects of patent practice. One consequence of this is that whereas in the United States patent claims are given the broadest possible interpretation,[157] they are interpreted rather narrowly in Japanese courts and tribunals. This practice is thought to allow others to more

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154 While it is often criticized for the legal gymnastics that must be undertaken to ensure that only the inventor that actually invented first is rewarded, the first to invent system can also be viewed as wholly principle-based. It is the inventor and only the inventor to whom a patent can issue save in some rare instances. Whether the inventor chooses to contract away ownership of the patent is a matter between the inventor and the employer. Incidentally, Jordan and the Republic of the Philippines are the only other "first to invent" systems known to the author.

155 Samson Helfgott, *Cultural Differences Between the US and Japanese Patent Systems*, 232 JPOS 231 (March 1990). *See also* , The Intellectual Property Law of Japan, *supra note 153* at 59. The purpose of the patent law is "to encourage inventions by promoting their protection and utilizations and thereby to contribute to the development of industry."

156 It is interesting that the patent laws are construed as part of a system to advance industrialization and commerce. While the United States has the same component parts (eg, patent laws), it would be difficult to assert that the sum of these parts comprises anything like an industrial policy.

157 *See, eg., Graver Tank v. Linde*, 339 U.S. 605 (1950)(Principle of broad interpretation of claims expressly explicated in the formulation of Doctrine of Equivalents).

immediately benefit from the knowledge generated by the first patent by enabling claims to be easily invented around.[158]

The *Tokkyocho*, or Japanese Patent Office established as "an extraministerial agency of the Ministry of International Trade and Industry" (MITI), handles many of the ordinary functions found in the US Patent Office such as the examination of patent applications. However, it also has some unique functions. It provides an interpretation of the scope of patent claims, something reserved solely for courts (except in interference practice) in the United States. Further, it is tasked with conducting compulsory license arbitration and encouragement of inventive activities.[159] Thus, while it would be an error to suggest that the *only* purpose served by the Japanese patent system is to promote industry, it is certainly true that the government is much more positively involved in using the system than is the American government.

The Japanese patent grant does not draw nearly so large a circle of protection around the invention as is found in the United States. It should be noted, however, that infringement is not only actionable in the civil courts, but criminal sanctions are available as well.[160] Moreover, in addition to traditional fines including damages, an injunction, and the like, Japanese courts "frequently demand the infringer to post an advertisement in a form of letter of apology in daily newspapers under Article 106 of the Patent Law."[161] While the protected property is more narrowly defined, the amount of protection and enforcement is more multifarious than the American system.

Transferring patent rights does not pose any extraordinary problems in Japan but again there are some significant differences from US law. Patents are generally freely assignable in Japan as they are in America. However, unlike US law, in Japan "Where a patent is jointly owned by two or more persons, each owner cannot transfer his share without the

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158 As in the European systems discussed above, in Japan, the patent right is not just a negative one as it is in the United States (right to exclude). Rather it includes the right "to work the patented invention as a business." The Intellectual Property Law of Japan, *supra note 153* at 33. Working the invention includes acts of producing goods, using the invention, assigning the rights to it so others may use it, leasing or licensing it. Further, the construction of the statute cited above leads one to the conclusion that nonbusiness use of the patented invention is not an infringement. Moreover, prior user rights are available for those who were "unaware of the contents of an invention under patent application" *Id.* at 36. As with the European construction of the laws, the practical effect of the patent right is still that of excluding others from practicing the claimed invention.

159 *Id.* at 16.

160 5 years in penal servitude or 500000 yen fine (approximately $450.00). Japanese Patent Law, Art. 196(1).

161 Note the strong relationship to neoconfucian ideals.

consent of the co-owners."[162] This puts a restriction on the licensor that could interfere with his ability to contract. Furthermore, in the Japanese legal system, a license is construed as a right to exploit the licensed technology.[163] While this is similar to the popular American connotation of licensing, it is not identical. Under the American system, a licensor is able to carve up and parse out his property in an unlimited number of ways. It is possible, for example, for the licensor to license the invention solely for the licensee to use for some further experimentation wholly unrelated to commercial development.[164]

The *nature* of the Japanese contract right in intellectual property deals also differs from the Anglo-American right. Japanese law, for example, does not permit exclusive licenses per se. The closest analogue is the *senyo* which provides an *in rem* right to the property contained in the license as opposed to an *in personam* contract right (the former is called *bukken* while the latter is called *saiken*).[165] *Senyo* licenses can be used to divide the right to the res of the contract by territory, time of possession, or the field of use but the licensor can retain no right to work his own invention.

Before such an *in rem* right may be enforced it must be perfected by registering the license in the Japanese Patent Office. This is true whether or not the license involves international parties. However, if the license does involve an international transfer of technology, then it must also be validated by the Japanese Patent Office and the Fair Trade Commission as set forth below.[166] This process has been greatly liberalized so that today it is largely a formalistic matter that does not subject a completed agreement to undue uncertainty. Nevertheless, it is indicative of the view that the government has an active role to play and is absolutely essential to obtaining "exclusive" rights to practice the invention.[167] Furthermore, from the government's perspective, it is the Japanese party's responsibility to register the license. There is no

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162 Japanese Patent Law, Art. 73(1)(1988) *compare*, 35 USC §262.

163 Wegner, Japanese Patent Law, *supra note* 107 at 198.

164 Of course, since Japanese patents grant one the right to exploit the invention in business, such an experimental user would not require a license in Japan. However, the example serves to illustrate the principle that the American system allows a much greater range of discretionary transactions by licensing any part of the patent right that the licensor is willing to license.

165 Wegner, Japanese Patent Law, *supra note 107*at 199.

166 *Id.* at 213.

167 One of the benefits of this practice is that it allows the government to readily compile statistics regarding licensing technology. Certainly this supports the government's goal of serving industry, but the statistics are made available rather freely. This allows foreign investors and business practitioners to benefit from the practice as well.

warranty read into a contract which requires the Japanese party to do so unless it is included within the four corners of the document. Thus, if they are to get all the protection available, licensees are placed in the position of having to rely on the licensor to perfect the licensee's rights. They must also be sure to provide for this perfection as an express warranty or condition of the contract.[168]

By law, *senyo* licensees, as well as licensors, may sue third parties who infringe the underlying patent.[169] This right is not found in other types of licenses in Japan unless it is included as a contractual term. Further, a correction of the scope of a patent included in a *senyo* cannot be undertaken without the consent of both the patentee and the licensee.[170] One concern that ought to be raised whenever a *senyo* is concluded is the patentee's payment of maintenance fees (annual annuities) on the underlying patent. This may seem trite, but in "surprising numbers of cases, the license terminates through the failure to pay annuities on the patent."[171] This problem is easily avoided by incorporating the payment of a one-time, lump sum payment of patent annuities into the license.

If the licensor retains a right to practice the invention or authorizes other licensees to practice the invention then it is considered a *tsuja*, or ordinary (nonexclusive), license. These licenses should also be registered with the Japanese Patent Office but failure to do so does not change the character of the license as it does in the case of the *senyo*.[172] *Tsuja* licensees have no right to sue patent infringers or participate in trials for correction so they must ensure that licensors provide adequate assurances of these measures in their contracts.[173]

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168 In fact, without "validation" there is no contract at all. However, the procedure can be significantly simplified by involving the Bank of Japan in a 30 day validation process which does not generally involve the Japanese government. That is, the government merely accepts the validation proffered by the Bank. The government, it must be remembered, favors bringing new technologies into the country. *See*, Wegner, Japanese Patent Law, *supra note 163* at 213, *and see*, *Nanno v. Kido Kensetsu Kogyop K.K.*, 27 Minshu 580 (Sup. Ct., Apr. 20 1973).

169 Japanese Patent Law, Art. 100(1) and (2)(1988).

170 A reissue procedure is called a Trial for Correction under Japanese law. It can occur only in the Patent Office but is reviewable by a court. Wegner, Japanese Patent Law, *supra note 107* at 201.

171 *Id* at 202.

172 Registration is important as a matter of proof of prior rights. It prohibits a subsequent licensee from suing one as an infringer. *Id* at 203.

173 Wegner suggests particular attention be given to the following licensing terms: providing for registration by the Japanese party, right to sublicense (it is not presumed in senyo), right to sue (in tsujo), tax provisions, arbitration clauses, no contest (licensee estoppel is still believed available), noncompetition clauses, and governing law provisions. *Id.* at 217, 218.

As in many other nations of the world, Japanese patent law provides for the issuance of compulsory licenses for nonworking, blocking, and public interest patents. In practice, there have been few instances in which the provisions have been invoked and fewer still in which they have been enforced.[174] The infrequency of the use of compulsory licensing does not, however, mean that it is an insignificant possibility. The traditional disdain for the resort to law and the desire for privacy in business transactions make the threat of a compulsory licensing proceeding particularly powerful in Japan. Threats are not generally an effective method of conducting business in Japan, but instances in which the prospect of such proceedings have been tactfully intimated have been known to move licensing negotiations along where they otherwise would have stalled.[175]

Unpatented know-how rights and trade secrets are not specifically addressed in the civil code but they are enforced through general tort law which establishes that "a person who, willfully or negligently, has injured the right of another is bound to compensate him." [176] Contractual obligations to maintain secrecy are considered binding and legally enforceable but compensation (consideration) must ordinarily be given to the bound party in exchange for the obligation lest the agreement be found interfering with the individual's constitutional requirement of "freedom to choose one's occupation."[177] As a practical matter, the common practice of lifetime employment makes employee theft of trade secrets within Japan a rare occurrence.

Further, there are specific sections of the criminal code which proscribe intimidation, obstruction of the business of another, breach of

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174 Only about one request for compulsory license per year has occurred since the inception of the laws. *Id.*

175 Japanese law requires that a good faith attempt at voluntary licensing first occur before compulsory and requires the Commissioner of Patents to submit a compulsory license request to the Industrial Property Council. Japanese Patent Law, Art. 84. One American Lawyer recounted an instance in which a US firm wished to do business as a licensee in Japan. The Japanese patent proprietor initially appeared interested but then thought better of the deal. Not knowing that compulsory licenses were a real oddity, the American suggested that they might seek one. The patent proprietor immediately accepted the terms that were proposed. Upon reflection, the American lawyer believes the change in heart was the prospect of having others see that the proprietor was not able to conclude relationships in business. Further, the idea that its private affairs would become public did not seem welcome. The lawyer has asked that the identity and specifics of the event remain confidential.

176 Japanese Civil Code, Art. 709.

177 Japanese Constitution, Art 22(1).

trust, and the like.[178] Although the nature of the rights protected under trade-secret and know-how agreements is disparate and different from those found in the patent laws, know-how licenses are not treated very differently from patent licenses in Japan provided that secrecy and responsibility for damages are expressly provided in the contract.[179]

Licensing agreements are further regulated under the antimonopoly laws which set out as a general proposition that unreasonable restraints of trade are unlawful. They incorporate features of the American Sherman, Clayton, and Federal Trade Commission acts.[180] Agreements to limit production, technology development, or to fix prices, for example, are unlawful activities.[181] The "Ancillary Doctrine" makes exceptions for agreements which involve copyrights, patents, utility models, designs, trademarks, and know-how.[182] Strict royalty provisions within the term of a patent, territorial and use restrictions, field of use and quantity restrictions are examples of intellectual property licensing terms that are exceptions to the antimonopoly laws.[183] Export restrictions, export price limitations, prospective restrictions on competitive activity, however, are all questionable terms. Further, where the intellectual property laws are abused, a court may cause the patent rights to be forfeited in addition to doling out fines and penal servitude under the Criminal Code.[184]

To ensure compliance with antimonopoly laws, every international contract must be reported to the Japanese Fair Trade Commission.[185] They can call for the removal of a restrictive clause after an agreement has been reached but prefer to prevent them by way of providing administrative guidance.[186] The Japanese party to the agreement has 30 days after the execution of an agreement to file a copy of it with the

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178 Japanese Civil Code, Art 222, 223, 235, 246, 247, 253, *See also Japan v. Himei , Hanrei Taimuzu* (no. 209) 260 (Osaka Dist. Ct., May 31, 1967).

179 That is, since there is no statutory property right in trade secrets, they must be provided for by contract. *See* ,Wegner, Japanese Patent Law, *supra note 107* at 220.

180 *See*, Michael D. Scott, *Foreign Principles of Intellectual Property/Antitrust (Japan)*, (reproduced in Intellectual Property/Antitrust, 335, PLI 1992)(Complete white, gray, and black lists are contained in the article).

181 Wegner, Japanese Patent Law, *supra note 107*at 215, 216.

182 These comprise Japanese white, gray, and black lists. They are similar in nature to those of the EEC. However, because Japan is only concerned with anticompetitive behavior in one territory-Japan-they are of much simpler construction than their European counterparts.

183 The Intellectual Property Law of Japan, *supra note 153* at 260.

184 Japanese Criminal Code, Art. 100(1).

185 Wegner, Japanese Patent Law, *supra note 107*at 216, 217.

186 The Intellectual Property Law of Japan, *supra note 153* at 258.

FTC.[187] A copy of the agreement must be included. The degree of detail that it contains necessitates that the parties consider matters well beyond the principle of the agreement.[188]

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187 Japanese Patent Law, Art. 6(2)

188 FTC Regulation No. 1, 1971 requires the following form be submitted to the FTC in the case of any patent, know-how, or technical assistance agreement:

1. Matters concerning the reporting party (domestic entrepreneur):
(1) full name or trade name; (2) name of the representative; (3) domicile; (4) section or person to be contacted with; (5) capitalization and assets; (6) outline of the business now engaged in.

2. Matters concerning the other party (foreign entrepreneur):
(1) full name or trade name; (2) nationality, domicile and law under which it was organized; (3) place of contact in Japan; (4) capitalization and assets; (5) outline of business now engaged in.

3. Matters concerning conclusion of the agreement (or contract):
(1) date is was concluded; (2) duration (any automatic renewal clause); (3) new or extension (with or without modifications); (4) other agreements (or contracts) between the parties (technical assistance, joint venture, sales, financing, etc.); (5) financial and management relationship between the parties (capital participation, joint venture company, participation in the management).

4. Contents of the agreement (or contract):
(1) technology involved, intended use and type of business to be carried out; (2) types of industrial property (patents, know-how, trademarks, etc.); (3) types of technical assistance (one-way introduction or assistance or reciprocal introduction or assistance, and assignment or licensing); (4) manufacturing territory (exclusive and nonexclusive territories): (5) sales territory (exclusive and nonexclusive territories); (6) restriction on sales price or sales quantity (including resale price or quantity); (7) restriction on the sale of competing products or on the use of competing technology; (8) restriction on the source from which raw materials or parts are to be purchased; (9) restriction on the quality of raw materials, parts products, etc.; (10) restriction on the manufacture or sale; (11) obligation to disclose improvement technology; (12) ownership of patents, patent applications, etc., improvement technology; (13) territory in which improvement technology assigned or licensed from the other party can be used; (14) period in which improvement technology assigned or licensed from the other party can be used; (15) payment for the assignment or license of improvement technology; (16) other restrictions on improvement technology; (17) method of calculation and manner of payment of considerations for technical assistance; (18) licensing of or requirement of use of trademarks or names; (19) causes for the termination of contract other than nonperformance of obligations; (20) arbitration clause; (21) governing law of contract and court jurisdiction agreed upon by the parties.

5. Other relevant information:
(1) applications for patents or other industrial property rights concerning the technology involved (countries and the kind of industrial property rights under application); (2) territory in which the foreign party is conducting sales activities with respect to the products manufactured under the technology involved; (3) territory

When the parties understand that they will have to explain such a wide of range of matters to a government agency, they will inevitably be compelled to raise these matters with their counterparts during negotiations. The very fact that there is a common form which asks several fairly penetrating questions and anticipates a completed agreement as of some verifiable time suggests that discrete business transactions is not always so secondary a consideration (versus the relationship itself).[189] Thus, while Japanese tradition favors relationship development, Japanese intellectual property law and licensing regulations compel detailed transaction completion. This is certainly accentuated in the case of international agreements. Thus, the combination of these factors makes it more likely that the Japanese will hold simultaneous perceptions of agreement completion. Domestic agreements will be negotiated almost exclusively to achieve a traditional relationship while international agreements will now be permeated with transactional concerns that rival the primacy of relationship building.

IV APPLICATION[190]

Two hyoptheticals will help illustrate application of the material discussed above.

A. The Patent License:

The first hypothetical is a relatively simple case in which an American firm has developed a new device. It initially thought the device would be marketable throughout the world and obtained patent rights in a number of countries. After realizing that the price of shipping the devices to these countries would be prohibitive and that it lacked experience with overseas marketing channels, it sought foreign licensees to make and sell the devices abroad. Exclusive licenses and fixed rate royalties based upon the net selling price are desired so that license administration is eased.

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in which any third party is given an exclusive sales right for products manufactured under the technology involved; (4) any agreement (or contract) concluded by the foreign party involving the same or similar technology with other domestic entrepreneurs.

189 The Japanese FTC does not involve itself in nearly as positive a manner as was the case in years past. However, substantial statistics are compiled on the basis of filing of forms. Intellectual Property Law of Japan,*supra note 153* at 273.

190 The experiences of several corporations recently involved in international licensing ventures were heavily relied upon in this section. Special thanks are given to Walter Zanchuck, Vice President and General Manager of Hobart Tafa Technologies, Inc. for recounting numerous experiences he has had in similar circumstances with a number of firms. No confidences are revealed here.

Potential licensees in each target country have been identified and outstanding progress has been made in negotiations. In fact, in each case, the American firm believes that it has such agreeable terms with its counterpart that all that must be done is for the lawyers to "clean up" the paperwork (prepare written contracts) for the parties to execute. Feeling that the deal is done, the business practitioners return home in anticipation of paperwork flowing through the mails and across faxes. They are certain that their first check will arrive within a few months.

From the licensor's perspective, agreement completion will be substantially similar in each country.[191] Patents are public documents, if agreement is reached the licensee will merely be authorized to use them. Thus, all the licensor must do is attain a properly executed written contract and then wait for royalty checks to appear.[192]

What is the licensee's perspective on this issue? In France and Germany the parties too would have little difficulty in perceiving the moment of agreement and bindingness. There, both lawyers and businessmen would probably view this as a two step process. In the minds of business practitioners there, as here, there is agreement in principle when the negotiations are complete but there is not bindingness until the written contract formalities have been complied with. In years past this merely meant that the notary or properly authorized agent of the company executed a document which complied with the formalities of the civil code. Today, however, if the agreement involves intellectual property these formalities are more properly perceived as requiring compliance with the EEC regulations governing competition. This requires European lawyers to take a harder look at the terms which have been agreed to. Questions such as whether the extent of territorial exclusivity is appropriate must be more critically considered.[193] Any attempt at dividing territories or mandating use restrictions will require careful legal counsel of the type found in American contracts that attempt to plan out every future contingency. The French or German party must decide whether to specifically invoke the Block Exemptions or risk having a court

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191 First, it should be noted that most American business practitioners would probably consider the deal essentially complete but would not consider themselves contractually bound. The common American sentiment that "you don't have it unless you have it in writing" being the operative point here.

192 Of course, this is an oversimplification, but it expresses the essence of the behavior that could be expected.

193 Interestingly, undue attention to the technical aspects of contract drafting has always brought a fair amount of criticism to Americans. While there may still be merit in this criticism, it is true that increasing attention is being given to this type of behavior around the world.

rule that the absence of those provisions indicates a lack of intention to utilize those provisions.

In short, the simple agreement reflective only of general principles can no longer completely satisfy the needs of the European party. If any business is anticipated beyond a national border the contract must more specifically account for the future than past practice has required (ie, adopt a more Anglo-American approach). This is true whether or not the French or German licensee wishes to acknowledge it because it may be the licensor who wishes to conduct cross border licensing. Here, both French and German licensees would probably desire a formal written contract identifying the technology licensed, the license grant, the royalty, and term of the agreement. To be safe, both licensees must now identify the ramifications of territory, scope, and use restrictions, block exemptions and similar terms. Still, the agreement covers a simple transaction and the parties could expect fairly rapid conclusion of the arrangement. Once drafts of the written contract are honed through the give and take of legal review by each firm, execution is affected, and the appropriate documentation is registered in the appropriate agency, all parties would consider the agreement complete and would begin to perform.

The Japanese licensee will most likely maintain two different perceptions simultaneously. Most licensees would ideally like the agreement to be preceded by an understanding that it is the relationship of the parties that counts most. A simple statement of objectives memorialized into a short and flexible written contract would then follow. When the parties feel comfortable with each other and the specific technology that will be licensed is identified, the responsibility for patent enforcement is specified, exclusivity, royalty, term, and territory are agreed to, the Japanese licensee will likely perceive a completed agreement.[194] Performance will not start, however, until a formal written contract is executed since the other perception that the licensee is likely to maintain is that such a memorialization is a prerequisite to contract formation in the minds of Americans. The licensee will accommodate the "more American" view.

B. The Mixed License:

The second hypothetical is a little more complicated than the first. In this case, another American firm has developed a new process covered

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194 Japanese parties will have substantially the same antitrust and regulatory compliance concerns. Registration with the FTC, for example, will still be a necessary step in agreement completion.

under patents in several nations. Unfortunately, the process does not help the American firm accomplish any of its strategic objectives and is just too costly for the firm to engage in any substantial investment. Firms in other industries, however, could greatly improve profitability by practicing this process. An American licensee is already providing a steady stream of royalty income from its use of the process in the United States.

Potential foreign licensees have been working hard to hammer out comparable deals with the American patentee. In each case, the foreign firm has insisted that American technical personnel (several scientists, engineers, and technicians) be sent to the foreign firm to assist in the start-up effort. This would ensure that the know-how required to practice the process is properly transferred and would be part of the license grant. Although the patentee will be required to slow down some of its development efforts at home to accommodate this term, they have decided that the urgent need for cash fulfilled by the license warrants sending the personnel and licensing the know-how.

Requiring technical personnel to assist in the transfer of know-how adds both a pecuniary and an intangible uncertainty to the problem that puts a premium on determining when the agreement is concluded. The pecuniary risk arises in the form of opportunity cost. If the licensor does not have tremendous research and development resources to begin with, sending such personnel to the licensee means diverting future development in favor of immediate receipts. To make this pay off, the receipts must be fairly certain and the agreement must not be rescinded after the technical personnel are dispatched. The intangible risk is that once know-how is released it will be difficult to recapture. Of course, both of these problems can be addressed by courts but this is certainly one of the worst outcomes that a firm in the business of rapid technological developments could foresee. Court action involves a drain on time and other resources. Thus, the licensor is very likely not to dispatch personnel armed with know-how until it perceives the agreement as etched in stone.

Both French and German firms must go through the same iterations as in the simple case of the patent license outlined above. Further, however, more technical legal provisions must be drafted into the formal written agreement. These provisions will revolve around such items as know-how block exemptions. This will only form the first stage in the legal completion of the agreement. To the French and German licensees, a further step is likely to be perceived as necessary for agreement completion. Since they cannot maintain any competitive advantage from merely using the patented technology, they cannot perform until the technical personnel arrive. Thus, as a practical matter, they must view

agreement completion in much the same way that an Anglo-American lawyer views the acceptance of a unilateral contract. The agreement is not complete until performance occurs. Once technical personnel arrive, the remainder of the agreement may be akin to the traditional European notion of working out contingencies as they arise. Such terms can be more naturally handled in the traditional European fashion.

Because there will be a requirement to work together, the Japanese licensee would most likely view this type of agreement as relational in the traditional sense. Before the licensee will commit to inviting others to participate in an established business hierarchy, it will want to be certain that the parties can work together, that the harmony of the workplace will not be disrupted, and that the social order is not otherwise irreparably damaged. Determining whether or not a trustworthy working relationship is possible will likely be perceived as the beginning and end of agreement formation in the mind of the licensee. Again, however, they will accommodate the American prerequisite of detailed written contracts. Knowing that the licensor's perception of agreement completion relies on the execution of a detailed written contract, the licensee may use this as an opportunity to test the proposed relationship.

When the licensor is told that the proposal must be reviewed by a committee or higher authority the licensee may be merely measuring the patience and flexibility of its counterpart. Proposing a redrafting of certain terms, time delay, and other *tatemae* and *honne* may be invoked. If this is the case, then the licensee does not view the relationship as properly formed. Once the licensee is satisfied that the licensor will make a good partner, the agreement is perceived as complete and an executed written contract is delivered to the licensee. Of course, the formalities and involvement of the government require compliance.

V CONCLUSION

The foregoing discussion is representative of a process that can be used to determine how one's counterpart in international technology transfer perceives progress in negotiations. The importance of this determination can best be addressed by a question that the eager intellectual property proprietor is likely to ponder. That question is "When should I begin to perform the agreement that I think I have entered?" Certainly, this is an appropriate question for legal counsel.

There are two answers that must be given to the proprietor. First, it is extremely risky to begin performance before a legally binding contract is formed. Locating this point is basic and can be readily determined through the analysis of ordinary contract law, both domestic and foreign. The second answer that must be given to the proprietor is

that nobody should begin to perform until it is clear that the other party perceives an agreement to be complete. Whether a foreign party perceives an agreement to be complete cannot be answered solely by reviewing the law of contracts, however. Of course, one can always ask one's counterpart when this point has occurred but repetitious questioning along these lines is probably not good business practice and certainly clashes with the values in some cultures which place a premium on such attributes as patience. Further, it will not always produce a reliable response.

An inquiry into the relationship between the individual and institutions such as the judiciary, the law in general, business practice and customs, and the impact of other cultural and social factors is helpful in understanding the perception of one's counterpart. An individual's sense of agreement completion will be shaped just as much by these factors as by the determination of the legal issue of when a contract is enforceable. Admittedly, this can be an exercise in subtlety. However, it can lessen the chance of missing an opportunity, preparing for a venture that never materializes, or merely being disappointed.

The Annex contains factors which have been abstracted from this study that are applicable to an inquiry into such perceptions. Understanding these factors and applying them to the situation faced by the negotiator as done in the hypotheticals presented above will help one determine where they stand in the course of a negotiation.

APPENDIX

The following factors should be considered in determining the perception of one's counterpart in international technology transfer agreements:

1. Does the law and legal culture of one's counterpart contemplate instantaneous contract formation?

2. Does the law and legal culture give effect to relational arrangements and, if so, how does it do it?

3. Does the ethnic culture have any proclivities favoring either transactional or relational views?

4. Are the views above impacted by special concerns regarding intellectual property (eg, is a propensity for anticompetitive behavior presumed and thus regulated)?
   a. Which aspects of the agreement are the parties free to negotiate without governmental involvement?
   b. Which aspects of the agreement require some positive governmental action? (eg, Does a term of exclusion, such as a territorial restriction, require agency approval?)

5. How is the role of the government perceived in the formation of contracts?
   a. Are parties generally free to conclude their own business affairs?
   b. What is the relationship between the government and the individual's ability to use and transfer property generally?
   c. Is regulatory compliance viewed as a condition precedent or is it a mere inconvenience?
   d. Are formalities a condition precedent or a mere inconvenience?
   e. Must one contractually assign rights and duties or will they be supplied by national law, business practice, custom, or some other means?

6. Taken as a whole, do all of the factors above suggest that agreement completion is likely to be viewed differently from the legal model present in the nation of interest?
   a. How does it differ? (eg, Do business practitioners perceive a stepwise model of agreement completion? Do they require the formation of a relationship from which transactions arise without much ado?)
   b. What impact will this have on when performance can be expected?